



**April 25, 2018**

**To:** Finance and Administration Committee

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

A handwritten signature in black ink, appearing to read "Darrell Johnson", is written over the name in the "From:" field.

Janet Sutter, Executive Director  
Internal Audit Department

A handwritten signature in black ink, appearing to read "Janet Sutter", is written over the name in the "From:" field.

**Subject:** Fiscal Year 2017-18 Internal Audit Plan, Third Quarter Update

**Overview**

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2017-18 Internal Audit Plan on August 14, 2017. This update is for the third quarter of the fiscal year.

**Recommendation**

Receive and file the third quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2017-18 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. Audits initiated by entities outside of OCTA are coordinated through Internal Audit.

**Discussion**

The OCTA Internal Audit Fiscal Year 2017-18 Internal Audit Plan (Plan) (Attachment A) reflects all planned audits and the status of each project.

During the quarter, Internal Audit issued the results of an audit of purchasing cards and found that controls to ensure transactions are valid, authorized, and in compliance with policies and procedures are generally adequate. Three recommendations were offered to improve oversight of compliance with the policies and procedures. Management agreed with the recommendations and indicated that enhancements would be implemented.

Internal Audit also issued the semi-annual audit of investments for the period July 1 through December 31, 2017, and concluded that OCTA complied with its debt, investment, and reporting policies and procedures for the period.

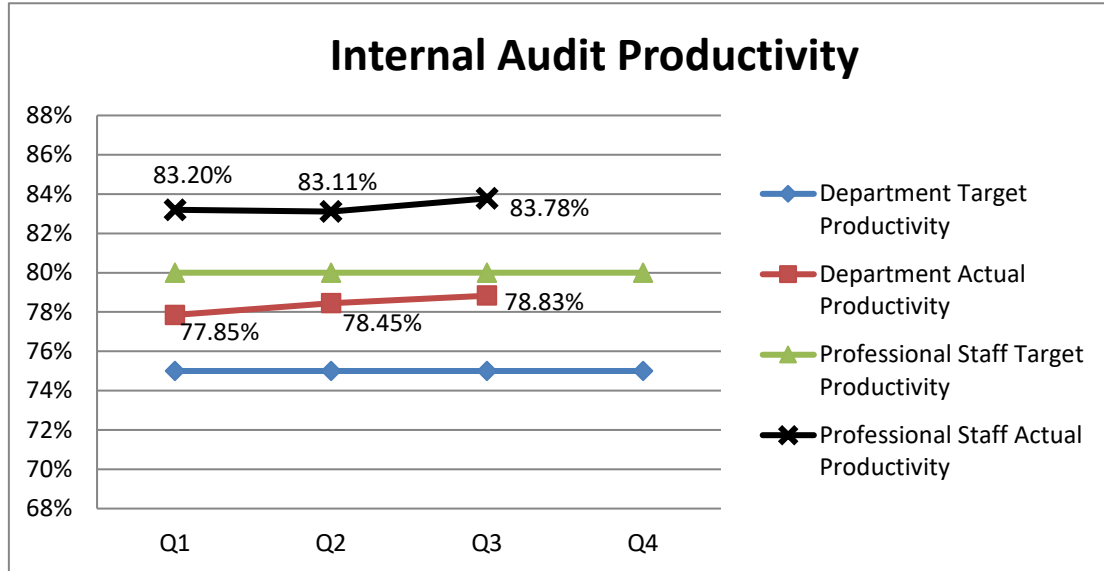
An audit of the cooperative agreement with Metrolink for the Control Point Fourth Project was also completed and identified weaknesses in procurement processes by Metrolink. Internal Audit recommended that OCTA project managers exercise additional oversight to ensure proper procurement procedures are employed for OCTA projects. Management agreed and indicated that additional steps will be taken going forward.

Also during the quarter, OCTA's independent financial statement auditor, Vavrinek, Trine, Day & Company, LLP (VTD), issued results of the annual Measure M Agreed-Upon Procedures (AUP) reviews. The AUP were applied to the cities of Cypress, Irvine, Laguna Beach, Los Alamitos, Rancho Santa Margarita, San Clemente, San Juan Capistrano, and Villa Park in relation to Local Fair Share (LFS) funding, and the cities of Buena Park, Costa Mesa, Laguna Niguel, Laguna Woods, San Clemente, and San Juan Capistrano in relation to Senior Mobility Program (SMP) funding. Observations were made relating to the classification of Maintenance of Effort expenditures, indirect charges not properly supported, errors in reporting of amounts on required activity reports and annual expenditure reports, and service contractor procurement. OCTA program management staff will perform follow-up with the cities to ensure corrective action is taken, as applicable.

#### 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 second quarter ended March 31, 2018, Internal Audit achieved productivity of 79 percent, and the professional staff achieved productivity of 84 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management Department (CAMP), and consistent with OCTA procurement policy, Internal Audit conducts reviews of single bid procurements to ensure that CAMP handled the procurement in a fair and competitive manner. Internal Audit also reviews prices proposed by architectural and engineering firms and sole source contractors to ensure that the prices are fair and reasonable. Internal Audit makes recommendations to adjust proposed rates where they exceed the rates per review. When the value of recommended adjustments can be estimated, Internal Audit tracks and reports the potential savings, as noted below. During the quarter ended March 31, 2018, Internal Audit conducted five pre-award agreed-upon procedures reviews and recommended price adjustments, as indicated below:

Quarter	Recommended Price Adjustments
1st	\$ 4,069
2nd	538,528
3rd	51,072
4th	
Total	\$ 593,669

### Fraud Hotline

During the quarter ended March 31, 2018, Internal Audit received eight reports through OCTA's Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com). Of the reports received, five were referred to management and/or customer service and three reports were investigated by Internal Audit. For two of the three reports, allegations made were not substantiated. The last investigation is still underway at quarter end.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended March 31, 2018, Internal Audit made initial contact within two business days.

### Outstanding Audit Recommendations Tracking

At the request of the Finance and Administration Committee, a listing of outstanding audit recommendations is included with the quarterly updates to the Plan as Attachment B.

For the quarter ended March 31, 2018, Internal Audit completed follow-up reviews of 17 outstanding audit recommendations. Fourteen recommendations had been appropriately addressed by management and are reflected at Attachment C. Three recommendations from the audit of budget development, monitoring and reporting have been partially addressed, but will remain open pending completion of the current year budget process and additional testing by Internal Audit. Follow-up of another eight recommendations is in-process at quarter end.

Five recommendations from the audit of purchasing cards, the cooperative agreement with Metrolink for Control Point Fourth Project, and audits by VTD of selected cities' LFS and SMP were added to the list.

### **Summary**

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

***Attachments***

- A. Orange County Transportation Authority Internal Audit Department Fiscal Year 2017-18 Internal Audit Plan, Third Quarter Update
- B. Outstanding Audit Recommendations (Audit Reports Issued Through March 31, 2018)
- C. Audit Recommendations Closed During Third Quarter, Fiscal Year 2017-18

**Prepared by:**



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

**Orange County Transportation Authority  
Internal Audit Department  
Fiscal Year 2017-18 Internal Audit Plan  
Third Quarter Update**

<b>Audit Activity</b>	<b>Project Number</b>	<b>Description</b>	<b>Primary Audit Type</b>	<b>Planned Staff Hours</b>	<b>Staff Hours to Date</b>	<b>Under (Over)</b>	<b>Status (Date Issued)</b>	<b>External Auditor</b>
<b>Mandatory External Independent Audits</b>								
Annual Financial Audits and Agreed-Upon Procedures Reviews	FY18-001 through FY18-004	Coordinate and report on annual financial and agreed-upon procedures reviews for fiscal year 2017-18.	Financial	375	346	29	Complete	
External Regulatory Audits	FY18-005	Coordinate and report on external audits by regulatory or funding agencies.	Compliance	60	45	15	Ongoing	
<b>Internal Audit Department Projects</b>								
Risk Assessment and Annual Audit Plan	FY18-100	Annual preparation of the audit plan, quarterly updates to the audit plan, periodic assessment of risk throughout the year, including the monitoring of audit results of related entities.	Audit Plan and Updates	200	55	145		
Information Systems Risk Assessment	FY18-104	Engage a firm to conduct an information systems risk assessment for the Orange County Transportation Authority (OCTA) environment. Review should include identification and evaluation of threats, vulnerabilities and safety characteristics of the OCTA information technology environment.	Audit Plan and Updates	120	34	86	In Process	
Quality Assurance and Self-Assessment	FY18-101	Update of Internal Audit Policies & Procedures. Annual self assessment of the Internal Audit Department's compliance with Government Auditing Standards.	Quality Control	160	163	(3)	Complete February 2018	
Fraud Hotline Activities	FY18-102	Administrative duties related to maintenance of the Fraud Hotline and work related to investigations of reports of fraud, waste, or abuse.	Fraud Hotline	320	257	63	25 Reports Received	1 Report Issued 12-26-17
Automated Workpaper Solution	FY18-103	System updates/training related to automated workpaper solution.	Workpaper System	80	41	39	Ongoing	
<b>Internal Audits</b>								
<b>Clerk of the Board</b>								
Public Meetings / Brown Act Compliance	FY18-508	Assess systems and controls in place to ensure compliance with the Brown Act.	Compliance	160	222	(62)	In Process	
<b>Security and Emergency Preparedness</b>								
Transit Police Services Contract	FY17-512	Review oversight controls and contract compliance with agreement for provision of Transit Police services.	Compliance	80	110	(30)	Complete 8-31-17	
<b>Human Resources and Organizational Development</b>								
Benefits: Health Insurance Plans and Health Savings Accounts	FY17-506	Review controls in place to ensure proper enrollment, accounting, and compliance with laws, regulations, policies, and procedures.	Operational	100	278	(178)	Complete 10-19-17	
Storm Water Pollution Prevention Plan	FY17-505	Review oversight controls, policies, and procedures to ensure compliance with Environmental Protection Agency regulations.	Compliance	32	18	14	Complete 8-23-17	

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<b>Capital Programs</b>								
Interstate 405 (I-405) Improvement Project: Project Management Contract	FY18-505	Assess and test contract compliance and oversight controls of project management services provided for the I-405 Improvement Project.	Compliance	300	320	(20)	In Process	
Interstate 5 (I-5) Improvements: Pacific Coast Highway (PCH) to San Juan Creek (SJC) Road	FY18-512	Assess adequacy of contract compliance, oversight, and reporting controls related to the I-5 Improvement Project between PCH and SJC Road.	Internal Control	300	-	300		
Project K: Right-of-Way Acquisition Activities	FY18-502	Assess and test compliance with reporting requirements related to acquisition of property rights for the I-405 Project K.	Compliance	240	195	45	Complete 9-27-17	
Metrolink Cooperative Agreement for Control Point: 4th Street - Santa Ana	FY18-504	Review and testing of compliance with the cooperative agreement with Metrolink for design and construction of a control point at 4th Street in the City of Santa Ana and a new power turnout to the Union Pacific Railroad spur track.	Compliance	240	416	(176)	Complete 3-6-18	
<b>Planning</b>								
Comprehensive Transportation Funding Programs Projects	FY18-5XX	Review selected projects for compliance with Measure M Ordinance, policies, and procedures.	Compliance	240	-	240		
<b>Transit Operations</b>								
Contracted Fixed Route Operations	FY17-508	Assess adequacy of oversight controls and contract compliance with key provisions of the agreement with First Transit.	Internal Control/ Compliance	80	84	(4)	Complete 8-30-17	
Fleetwatch Fluid Management System	FY18-506	Assess adequacy of system controls and data reporting related to dispensing of fuel.	Operational	240	412	(172)	In Process	
ACCESS Service	FY18-5XX	Review and test compliance with key contract provisions, with consideration of program effectiveness and efficiency.	Internal Control/ Compliance	320	-	320		
<b>Finance and Accounting</b>								
Treasury	FY18-501	Semi-annual review of investments, compliance, controls, and reporting.	Compliance	200	278	(78)	2 Reports Issued 8-30-17	
Grant Closeouts	FY17-511	As-needed financial and compliance audits of grants at closeout to ensure propriety of expenditures.	Compliance	40	32	8	2-1-18 Complete 8-4-17	

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<b>Contract Administration and Materials Management (CAMM)</b>								
Price Reviews	PR18-XXX	Cost and price analyses as requested by OCTA's CAMM Department.	Agreed Upon Procedures	1,000	591	409	17 Reports Issued	
Buy America	FY18-507	Pre-award and post-delivery reviews to ensure vendors and OCTA are in compliance with federal Buy America requirements.	Compliance	280	130	151	Complete 12-7-17	
Warranty Administration	FY18-510	Assess adequacy of controls in place for tracking and recording of warranty repairs and credits.	Internal Control	240	5	235		
Purchasing Cards	FY18-503	Assess and test controls over purchasing cards.	Internal Control	240	497	(257)	Complete 1-15-18	
<b>Unscheduled Reviews and Special Requests</b>								
Unscheduled Reviews and Special Requests	FY18-8XX	Time allowed for unplanned audits, coordination of external agency audits, and requests from the Board of Directors and management.	Varies	320	10	310		
<b>Monitoring Activities</b>								
Measure M Taxpayer Oversight Committee (TOC)	FY18-601	Coordination of audit activities on behalf of the Audit Subcommittee of the TOC.	Non-Audit Activities	80	28	52	Ongoing	
Metrolink Audit Activities	FY18-602	Obtain and review audit results of Metrolink activities.	Non-Audit Activities	40	29	11	Ongoing	
Bus Base Inspections	FY18-603	At the request of the Transit Division, participation on annual base inspection teams.	Non-Audit Activities	32	64	(32)	Complete	
Capital Asset Inventory Observation	FY18-604	At the request of the Finance and Administration Division, observe and apply limited procedures related to the bi-annual capital asset inventory counts.	Non-Audit Activities	80	-	80	As Requested	
<b>Follow-up Reviews</b>								
Follow-up Reviews and Reporting	FY17-7XX, FY18-7XX	Follow-up on audit findings and recommendations.	Follow-up	320	313	7		
<b>Total Audit Project Planned Hours (A)</b>				<b>6,519</b>	<b>4,971</b>	<b>1,548</b>		



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)	External Auditor
<b>Internal Audit Administration</b>								
Board of Directors and Committee Meetings				260	122	138		
Executive Steering and Agenda Setting Meetings				180	118	63		
Internal Audit Staff Meetings				150	65	86		
Other Administration				1,500	1,031	469		
			<b>Total Hours (B)</b>	<b>8,609</b>	<b>6,306</b>	<b>2,303</b>		
			<b>Department Target Efficiency</b>	75%				
			<b>Target Efficiency - Professional Staff</b>	80%				

**Outstanding Audit Recommendations  
Audit Reports Issued Through March 31, 2018**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
1/4/17	17-502	Finance and Administration (F&A)	Payment Card Industry/Data Security Standard (PCI-DSS) Compliance	Management should evaluate resources and controls to ensure full compliance and develop a proposal to achieve compliance and/or provide a reasonable approach moving forward. Management should implement oversight controls to assess the accuracy, timeliness, and sufficiency of Cofiroute USA's (Cofiroute) PCI DSS compliance information.	Jan-18	Management will take the following actions: (1) engage a third party PCI Security Assessor to perform Self-Assessment Questionnaires (SAQ) going forward; (2) assess the remediation items identified in the SAQ and address items that fall into existing security improvement efforts; (3) perform a yearly assessment of Cofiroute's PCI DSS compliance information; (4) undergo a review to determine if OCTA should take the steps necessary to become fully PCI compliant; (5) continue to allocate and prioritize resources to cybersecurity risks while addressing PCI compliance concerns. <b>Update August 2017:</b> Management has not achieved compliance or fully implemented an approach to address non-compliance. <b>Management Response March 2018:</b> Management will make appropriate changes to the environment and be fully PCI compliant by <b>September 30, 2018.</b>	<b>Management response under review by the Internal Audit Department (Internal Audit)</b>
1/4/17	17-502	F&A	PCI-DSS Compliance	Management should implement procedures to ensure that quarterly network scans are performed and remediation efforts are identified and addressed accordingly. Management should also implement procedures for oversight and monitoring of Cofiroute's activities and incorporate their system scan results into submissions to American Express.	Jan-18	Management agrees with Internal Audit's recommendation and will implement procedures to ensure quarterly network scans are performed. Management will also identify items to be remediated and implement them based on risk and cost. Management will allocate resources to perform periodic assessments of Cofiroute's PCI DSS compliance information. <b>Update August 2017:</b> Quarterly scans are not performed and submitted as management continues to assign resources to areas of non-compliance. <b>Management Response March 2018:</b> Management will be fully compliant with PCI scan requirements by <b>September 30, 2018.</b>	<b>Management response under review by Internal Audit</b>

**Outstanding Audit Recommendations  
Audit Reports Issued Through March 31, 2018**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
2/15/17	16-509	Human Resources and Organizational Development (HROD)	Budget Development, Monitoring, and Reporting	Management should implement procedures to ensure that changes to salary grade levels are based on reasonable and consistent methodologies and that documentation is maintained. Changes should also be communicated to management prior to seeking Board of Director (Board) approval.	Sep-18	Human Resources (HR) management will ensure that Personnel and Salary Resolution (P&SR) changes are communicated to management prior to seeking Board approval. Current methods for salary grade changes will be reviewed to determine the best practice for documenting these actions. HR is in the process of obtaining a compensation and market salary data system. This system will be utilized to enhance data collection, consistency, and documentation. <b>Update June 2017:</b> Internal Audit found that recommended upgrades to a job family were not supported by data collected and stated criteria and documentation supporting grade change recommendations requires improvement. As such, this recommendation will remain open. <b>Update March 2018:</b> Management has developed written procedures and procured a market salary survey system; however, proposed changes for Fiscal Year (FY) 2018-19 are still in process and the system has not yet been implemented. Internal Audit estimates management's progress toward addressing this recommendation is at 50%.	<b>Initiate next update Sep 2018</b>

**Outstanding Audit Recommendations  
Audit Reports Issued Through March 31, 2018**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
2/15/17	16-509	HROD	Budget Development, Monitoring, and Reporting	Management should clarify the Position Control Policy (Policy) with regard to Board approved positions, develop procedures to ensure that the total number of employees does not exceed the Board-approved number, and obtain Chief Executive Officer (CEO)-approval for dual-filled positions. Management should also develop controls to ensure compliance with the Policy.	Sep-18	The Policy will be reviewed and revised to clarify the approval process by OCTA's Board. Current procedures will be reviewed to determine if further action is required to ensure the total number of employees do not exceed the Board-approved number. In addition, recruitments that will result in a dual-fill will require the authorization of the CEO. <b>Update October 2017:</b> Since revisions to the Policy have not been finalized, Internal Audit will keep this recommendation open and return by the end of the FY. <b>Update March 2018: Management has revised and clarified the Policy and CEO approval is obtained for dual-filled positions; however, there is no evidence of review to ensure that the Board-approved number of positions is not exceeded. Internal Audit estimates management's progress toward addressing this recommendation is at 67%.</b>	<b>Initiate next update Sep 2018</b>

**Outstanding Audit Recommendations  
Audit Reports Issued Through March 31, 2018**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
2/15/17	16-509	F&A	Budget Development, Monitoring, and Reporting	Actual budgeted amounts should be shown on the Sole Source List. For services that could be performed by multiple vendors, the budget package should provide an explanation and justification for using the selected vendors.	Sep-18	Management agrees with Internal Audit's recommendation and will show the actual budgeted amount for software and hardware maintenance when the Sole Source List is presented to the Board for approval. Management also will develop a budget justification for emergency malware support in the budget package. <b>Update October 2017:</b> Management added the budget amounts to the Sole Source List in accordance with the first part of the recommendation. However, management did not address the second part of the recommendation, regarding the explanations and justifications for using the selected emergency malware support vendors. We will return at the end of the FY to follow-up on the second part of the recommendation. <b>Update March 2018: The outstanding part of this recommendation will be addressed during the FY 2018-19 budget cycle. Internal Audit estimates management's progress toward addressing this recommendation is at 50%.</b>	<b>Initiate next update Sep 2018</b>
8/30/17	17-508	F&A	Contracted Fixed-Route Operations	Internal Audit recommends that CAMM develop procedures for monitoring of performance bond requirements and certificates of insurance to ensure that performance bonds are appropriately adjusted with amendments and insurance requirements are met.	Feb-18	CAMM concurs with this recommendation and has taken steps proactively to review and track bond and insurance documentation for compliance to ensure contract requirements are met. OCTA's Risk Management Department recently procured insurance brokerage services and the scope of work includes a requirement for insurance review and certificate tracking system for all contracts. OCTA will seek to include an additional feature related to monitoring bond value adjustments as an enhancement to this service. <b>Management Response March 2018: Management has been working with the provider to set up a new system to review and track bond and insurance documentation for compliance, with an anticipated go-live date in March 2018.</b>	<b>Management response under review by Internal Audit</b>

**Outstanding Audit Recommendations  
Audit Reports Issued Through March 31, 2018**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
8/30/17	17-508	Transit	Contracted Fixed-Route Operations	Internal Audit recommends management reconcile accident reports to monthly reports and develop procedures for progressive enforcement actions to be taken when contract requirements are not being met.	Feb-18	Management agrees to conduct a monthly reconciliation of accident reports. To ensure that contract language permits reimbursement regardless of when the work is initiated, management proposes a modification in the contract language to remove the requirement for OCTA's pre-approval and reflect the process used: "The contractor will not be reimbursed for the replacement or repair of any major mechanical components without the written approval of OCTA's project manager or his/her designee." For unclassified revenue, a process is already in place to monitor unclassified revenue on a weekly and monthly basis and management feels that including documentation related to the oversight including follow-up actions taken with the monthly invoice package would be a valuable addition. <b><u>Management Response March 2018:</u></b> Management has drafted an accident reporting policy that includes the reconciliation of accident reports to monthly summary reports, as well as an unclassified revenue policy that details the process used to monitor unclassified revenue. Management has also drafted a contract amendment to revise the language for major maintenance.	<b>Management response under review by Internal Audit</b>
8/30/17	17-508	Transit	Contracted Fixed-Route Operations	Internal Audit recommends that management consistently apply penalties as outlined in the contract. Any request to waive a penalty should be documented and accompanied by adequate documentation to support and justify how the failures could not have reasonably been prevented.	Feb-18	Management agrees with the finding and will amend the contract to allow for appropriate discretion with regard to penalty waivers. In the future, documentation, including a written request from the contractor and justification for the action, will be maintained. <b><u>Management Response March 2018:</u></b> Management has developed a penalty policy to be used when the contractor requests a waiver for penalties. Language regarding this process is also included in the draft contract amendment.	<b>Management response under review by Internal Audit</b>

**Outstanding Audit Recommendations  
Audit Reports Issued Through March 31, 2018**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
8/30/17	17-508	Transit	Contracted Fixed-Route Operations	Internal Audit recommends that management consistently apply penalties and consider non-payment of revenue hours for vehicles that have exceeded preventive maintenance intervals. Penalties should only be waived at the request of First Transit and with adequate justification and documentation demonstrating that the failures could not have reasonably been prevented. Finally, management should implement a secondary review of incentives and penalties during the invoice review process to determine that they are consistent with the contract.	Feb-18	Management agrees with the finding and will implement more consistent application of penalties; however, the contract will also be amended to allow for appropriate discretion with regard to penalty waivers. In the future, documentation, including a written request from the contractor and justification for the action, will be maintained. Management will also coordinate a monthly meeting to review invoice penalty and incentive amounts for accuracy prior to payment. <b><u>Management Response March 2018: Management had developed a penalty policy to be used when the contractor requests a waiver for penalties. Language regarding this process is also included in the draft contract amendment. Financial Planning and Analysis staff are assisting with the review and approval process for the monthly invoices, and the review includes verification of the back-up documentation for all penalties assessed.</u></b>	<b>Management response under review by Internal Audit</b>

**Outstanding Audit Recommendations  
Audit Reports Issued Through March 31, 2018**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
8/30/17	17-508	Transit	Contracted Fixed-Route Operations	Internal Audit recommends that contracted fixed route performance standards be measured consistent with the standards set forth in the contract. Management should implement procedures to ensure changes to performance standards are processed as formal contract amendments and that notice and justification for the changes is documented. Management should also consider implementing procedures that require Board notification and/or approval for changes to contracted fixed route performance standards. At a minimum, presentations and performance reports provided to the Board should clearly outline changes to the measurement standards and/or methodology.	Feb-18	Management agrees with the finding. The on-time performance window as measured and reported through the automated systems on-board all fixed route vehicles has been adjusted to reflect a zero to five minute window. This change has been made retroactive back to February 2016 when the change to five minutes, 30 seconds was implemented. Future quarterly performance measure reports will outline the methodologies used to collect data and if methodologies change, the report will identify the change. <b><u>Management Response March 2018: The on-time performance window was adjusted back to a zero to five minute window, consistent with the contract, with the adjustment retroactive to February 2016.</u></b>	<b>Management response under review by Internal Audit</b>



**Outstanding Audit Recommendations  
Audit Reports Issued Through March 31, 2018**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
8/30/17	17-508	F&A	Contracted Fixed-Route Operations	<p>Internal Audit recommends that the Price Summary be amended as needed to accurately reflect the agreed-upon rates and costs that will be invoiced to the contract. If rates or costs increase due to additional service added in amendments, the amendments should include a revised Price Summary. Management should also ensure that the increases in maximum obligations be calculated correctly based only on additional costs that will be incurred, without double-counting of costs.</p> <p>Finally, Internal Audit recommends that CAMM review all RFP addendums to determine if there have been changes in attachments and exhibits, before finalizing contracts.</p>	Feb-18	<p>Management concurs that the Price Summary be amended to capture the agreed-upon rates associated with each added service to the contract. Management will ensure the Price Summary is revised to reflect any future costs for additional services.</p> <p>CAMM's standard practice when conforming agreements is to review all RFP addendums to ensure all technical and contractual changes are incorporated in the final agreement. For added quality assurance, conformed agreements are sent to the requesting departments for review and concurrence prior to contract final execution.</p> <p><b>Management Response March 2018: Management has drafted a contract amendment to revise the Price Summary to include costs associated with the additional services.</b></p>	<b>Management response under review by Internal Audit</b>

**Outstanding Audit Recommendations  
Audit Reports Issued Through March 31, 2018**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
4/12/17	17-504	F&A	Investment Management Service Contracts	Management should ensure compliance with procurement policies and ensure that decisions to accept deviations from the Request for Proposals (RFP) are documented, along with the calculations and methodologies used when cost estimates are prepared by staff. Documentation on file should justify the reasons for changes to the RFP after proposals are received and the value of the cost proposal estimate should translate to the value of the contract issued. Finally, management should consider developing a policy with guidelines for the use of OCTA's logo by vendors, staff-provided testimonials, or staff participation in vendor case studies for marketing purposes.	Apr-18	The Contracts Administration and Materials Management Department (CAMM) will ensure an Independent Cost Estimate is provided as required and will re-enforce this requirement with staff. CAMM will also remind staff that project managers may not conduct direct negotiations. If the evaluation committee recommends a pricing model and methodology that differs from the RFP, the contract administrator will be required to clearly indicate such in the procurement memo along with the reason for the recommendation. CAMM management will ensure that staff understands the need for documentation to demonstrate the method for calculating pricing as well as how the pricing criteria was scored. Additionally, contracts will be issued consistent with the cost estimate on file. Lastly, management agrees to consider developing a policy with guidelines for the use of OCTA's logo by vendors, staff-provided testimonials, or staff participation in vendor case studies for marketing purposes. <b>Update December 2017: CAMM has reviewed procedures and provided training as indicated and management has developed a policy on the use of OCTA's logo. HROD management plans to incorporate a policy on testimonials into the Code of Conduct in April 2018.</b>	

**Outstanding Audit Recommendations  
Audit Reports Issued Through March 31, 2018**

<b>Audit Issue Date</b>	<b>Report Number</b>	<b>Division/ Department/ Agency</b>	<b>Audit Name</b>	<b>Recommendation</b>	<b>Initiate Next Update</b>	<b>Management Response</b>	<b>Status</b>
9/27/17	18-502	Capital Programs	Right-of-Way Acquisition Activities for the Interstate 405 (I-405) Project K	Internal Audit recommends that management develop written procedures for the reporting of administrative settlements and contracts executed under the Incentive Payment Program (Program) for the I-405 Project. The procedures should identify the frequency and method of reporting.	Apr-18	The Real Property Department has drafted a written procedure for the reporting of administrative settlements and contracts executed under the Program for the I-405 Project. The procedure identifies the frequency and method of reporting and includes two exhibits illustrating the format of each report. The I-405 Modified Settlement Delegation Authority Administrative Settlements Authorized Report format will now reflect the appraisal amount, additional compensation amount, total contract amount, and the calculated percentage of the settlement.	
10/19/17	17-506	HROD	Employee Health Benefits	Management should develop and implement written procedures to ensure that all qualified Health Savings Account (HSA) enrollees receive their employer-paid contribution. Further, OCTA should make the required HSA contributions, plus reasonable interest, to the employees identified in the audit.	Apr-18	The contributions have been remediated and processed to the two employee HSA's. Reasonable interest will be calculated and deposited. As these transactions are processed as payroll earnings, benefits will work with payroll to establish written procedures.	
10/19/17	17-506	HROD	Employee Health Benefits	Management should develop a written policy and procedures for collection of premiums in arrears.	Apr-18	The participant that owed \$1,336.40 as of December 2016, has paid this amount to OCTA. Management will work on a written policy and procedure to collect unpaid medical premiums.	
10/19/17	17-506	HROD	Employee Health Benefits	Management should seek Board member input and clarify the policy to address benefits eligibility for Board members that receive cash payments in-lieu of health benefits from the public entity they serve.	Apr-18	Management will consider revisions to the FY 2018-2019 (FY19) P&SR to clarify the policy. The FY19 P&SR will be presented for Board of Directors approval in June 2018, along with the annual budget.	

**Outstanding Audit Recommendations  
Audit Reports Issued Through March 31, 2018**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
12/26/17	N/A	Transit	Investigation and Limited Scope Review of the Senior Mobility Program (SMP) operated by the Korean American Senior Association (KASA)	KASA violated the SMP requirement to provide wheelchair-accessible vehicles. Internal Audit recommends management continue oversight activities and report any continued non-compliance to the Board for consideration as to future funding of this program.	Jun-18	Based on performance over the past year, contact with the program administrator on a variety of issues regarding compliance, as well as the current audit findings, staff is not confident that even with an enhanced level of oversight, compliance can be ensured. Management recommends that a 90-day termination notification be sent to KASA and funding be discontinued at the end of that period.	
12/26/17	N/A	Transit	Investigation and Limited Scope Review of the SMP operated by the KASA	Unallowable and unsupported costs are charged to the SMP, and costs reported for June 2017 did not agree to KASA's financial records. Internal Audit recommends that the OCTA coordinator review with KASA program guidelines for allowable direct and indirect costs. The coordinator should disallow all indirect costs charged directly to the SMP and any costs that are not adequately supported. The coordinator should also train KASA on monthly reporting requirements. Finally, any continued non-compliance should be reported to the Board for consideration as to future funding of this program.	Jun-18	Funds disbursed to KASA for service provided in 2018 will be adjusted, with the overstated \$1,564 deducted from the disbursement. If support for the program is discontinued as recommended by staff, KASA will receive a portion of the funds left for the current FY through the date of termination.	

**Outstanding Audit Recommendations  
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12/26/17	N/A	Transit	Investigation and Limited Scope Review of the SMP operated by the KASA	The age requirement to join KASA is currently set at 55 years and older; however, the SMP program defines eligible participants as 60 years and older. Internal Audit recommends that management require KASA to develop procedures to ensure only qualified trips are charged to the SMP.	Jun-18	If support for the program is continued, OCTA staff will monitor this during the site visits.	
12/26/17	N/A	Transit	Investigation and Limited Scope Review of the SMP operated by the KASA	Documentation on file indicates that KASA provides some trips outside their approved service plan. Internal Audit recommends that the coordinator disallow costs related to trips outside the service plan. The coordinator should also instruct KASA to reconcile monthly reports to trips sheets prior to submittal. Any continued non compliance should be reported to the Board for consideration as to future funding of this program.	Jun-18	If support for the program is continued, OCTA staff will monitor this during the site visits.	

**Outstanding Audit Recommendations  
Audit Reports Issued Through March 31, 2018**

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1/15/18	18-503	F&A	Purchasing Cards	The purchasing card administrator should enhance oversight procedures to include analysis of transaction activity and review of any transactions exceeding \$2,500.	Jul-18	The purchasing card administrator will enhance oversight procedures to include analysis of all cardholder's monthly transaction activity exceeding \$2,500.	
1/15/18	18-503	F&A	Purchasing Cards	Management should implement controls to ensure compliance with procedures or consider revising procedures to allow certain employees, who purchase food items on a regular basis, to do so without executive approval on each receipt.	Jul-18	Management agrees to revise the Business Expenses Policy to include modifications to the current procedure. The modifications will be as follows: require executive approval on each receipt for food item purchases, except for food purchased by the Clerk of the Board for Board and Committee meetings and new employee orientation conducted by HROD. Modifications to the Business Expenses Policy will be completed by March 31, 2018.	
1/15/18	18-503	F&A	Purchasing Cards	Four of the 24 designated approving officials are not department managers or directors, as required by procedures. Internal Audit recommends management replace these approving officials with either a department manager or a director, or revise procedures to reflect intended practices.	Jul-18	Management has reviewed the recommendation and agrees to update the Purchasing Card User Guide Policies and Procedures to include section managers as approving officials. The Purchasing Card User Guide Policies and Procedures will be updated and posted on OCTA Today no later than January 31, 2018.	

**Outstanding Audit Recommendations  
Audit Reports Issued Through March 31, 2018**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
3/6/18	18-504	Capital Programs	Metrolink Control Point Fourth Project	Internal Audit recommends management review with Metrolink staff the process for procuring contractors for OCTA projects to ensure compliance with regulatory guidelines and best practices.	Sep-18	Management agrees. Metrolink should follow its internal policies and procedures to solicit requests for proposals to issue a Contract Task Order (CTO) from their on-call bench of consultants or contractors to obtain competitive proposals. Additionally, Metrolink should document how a CTO is determined to be the most appropriate procurement method and include records of negotiation. Metrolink also needs to verify the proposed work is allowable in the scope of work for the contract. OCTA will follow-up with Metrolink on OCTA projects to inquire how services will be procured prior to procurement activities.	
3/12/18	N/A	Planning & Transit	Measure M City Audits: Local Fair Share and Senior Mobility Program, Year Ended 2017	Observations were made relating to the classification of Maintenance of Effort expenditures, indirect charges not properly supported, errors in reporting of amounts on required activity reports and annual expenditure reports, and service contractor procurement. Internal Audit recommends management follow-up with the cities to ensure corrective action has been taken.	Sep-18	Management will follow-up with the cities to ensure appropriate actions have been taken to address observations.	

**Audit Recommendations Closed During  
Third Quarter, Fiscal Year 2017-18**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Management Response
2/15/17	16-509	Finance and Administration (F&A)	Budget Development, Monitoring, and Reporting	Procedures should be developed and documented for the budget development and transfer processes. Management should also ensure project variances exceeding the threshold are investigated in accordance with the budget to actual reporting procedures, or alternatively clarify the investigation requirements in such procedures.	Management agrees with the recommendation and will re-evaluate and document all salary and benefit budget assumptions at a lower level of detail. Also, management will ensure project variances exceeding the threshold continue to be investigated in accordance with the budget to actual reporting procedures, and will clarify investigation requirements in such procedures. <u>Update October 2017:</u> Management has addressed the recommendations related to budget development and transfers. However, since changes to the budget to actual reporting procedures will be fully implemented in the first quarter, the Internal Audit Department (Internal Audit) will follow up on this part of the recommendation by the end of the fiscal year. <b>Update January 2018: Management has revised the guidelines to eliminate the requirement to explain +/- 10% and +/- \$100k variances. Currently, the lead analyst selects high priority projects that account for approximately 85% of the overall program variance, and the analysts then explain approximately 90% of high priority projects.</b>
3/9/17	17-507	F&A	OCTA Policies & Procedures	Management should update procedures to include a communications plan to ensure that employees expected to comply with policies are properly notified. Communication should occur, as appropriate, for both new and revised policies.	Management agrees with the recommendation and has taken steps to ensure communication is made to all employees when new policies are created or existing policies are updated. <u>Update October 2017:</u> Policy and procedure updates are being communicated to administrative employees via e-blasts; however, updates applicable to base personnel are not being properly communicated. Management indicated that there are future plans to communicate these policies via digital signage at the bus bases. <b>Update March 2018: All policy and procedure updates are now announced to base personnel via digital signage at the bases.</b>
3/9/17	17-507	F&A	OCTA Policies & Procedures	Management should implement controls to help ensure the accuracy and completeness of the master list of policies and procedures.	Management agrees with the recommendation and will implement procedures to ensure that the master list of policies and procedures is maintained with accuracy and completeness. <u>Update October 2017:</u> Management indicated that an automated system will be implemented to assist in the approval, distribution, and management of policies and procedures. <b>Update March 2018: Management has implemented software to automate the process of tracking and update of all policies and procedures.</b>



**Audit Recommendations Closed During  
Third Quarter, Fiscal Year 2017-18**

8/1/17	17-505	Human Resources and Organizational Development (HROD)	Storm Water Pollution Prevention Plan (SWPPP)	Continue efforts to eliminate the unauthorized non-storm water discharges related to the bus washes.	Bus wash water track-out capturing systems are expected to be finished and operable by August 2017. <b>Update March 2018: Bus wash water track-out capturing systems have been completed and are fully operational.</b>
8/1/17	17-505	HROD	SWPPP	Continue efforts to expand the use of the Ellipse system to include additional storm water-related tasks.	Current Ellipse work orders related to storm water pollution prevention have been updated and modified. New expanded work orders will be established within Ellipse by August 2017. <b>Update March 2018: Expanded work orders have been established in Ellipse for SW-related tasks.</b>
8/1/17	17-505	Capital Programs	SWPPP	Enhance oversight of contractors and personnel carrying out SWPPP related monitoring activities, particularly related to site inspections, sampling, reporting, etc.  OCTA should also ensure that agreements with contractors tasked with SWPPP activities include retention requirements.	Enhanced oversight of contractors and construction management teams will be implemented and monitored. OCTA will ensure current and future agreements with contractors include retention requirements. <b>Update March 2018: Management has updated the Construction Management Manual to include the following language..."The Contractor shall retain all records on-site while construction is ongoing. Once construction has completed, the Contractor is to submit a copy of the SWPPP with all pertinent records and reports from the entire project to the CM for record retention. The CM will review this file for completeness." Per staff, this language will also be added to future contract agreements.</b>
8/1/17	17-505	HROD	SWPPP	Ensure that a copy of the SWPPP is maintained at each bus base facility.	Hard copies of the SWPPP will be maintained at each bus base facility in addition to electronic copies. Each hard copy will be singularly identifiable and OCTA SWPPP members will be notified/trained of their locations. <b>Update March 2018: Hard copies of SWPPP are maintained at each bus base facility in addition to electronic copies. Each hard copy is singularly identifiable and OCTA SWPPP team members have been trained on their locations.</b>

**Audit Recommendations Closed During  
Third Quarter, Fiscal Year 2017-18**

8/1/17	17-505	HROD	SWPPP	Increase the Health, Safety, and Environmental Compliance (HSEC) group's participation with construction projects and activities to help ensure compliance with the Construction General Permit (CGP).	HSEC will continue to participate in CGP compliance efforts and will identify/allocate necessary resources to ensure compliance with the CGP in partnership with OCTA's Capital Programs group via project planning efforts. <b>Update March 2018: Project kick-off meeting agendas now reflect SWPPP related discussion items on the agenda. Additionally, HSEC staff can now view all OCTA CGP permits in the SMARTS system, and they're alerted via email when a new CGP gets submitted into SMARTS.</b>
8/1/17	17-505	Capital Programs	SWPPP	Ensure cooperative agreements specifically clarify the roles and responsibilities of all individuals and entities associated with compliance with the CGP.	Management doesn't agree that the roles and responsibilities of all individuals and entities should be included in the cooperative agreements. However, management will implement a procedure to document these roles and responsibilities in a project memo. <b>Update March 2018: The Construction Management manual has been updated to designate the roles and responsibilities of all parties with respect to SWPPP compliance.</b>
8/1/17	17-505	HROD	SWPPP	Establish a formal process in which technicians maintain documentation supporting why samples could not be collected during a sampling period.	Monitoring forms used by technicians will be revised to provide supporting documentation/verbiage on why samples could not be collected during a qualified sampling event. <b>Update March 2018: Updated monitoring forms now reflect evidence as to why a sample was not obtained during a qualified storm event. For each qualified storm event that doesn't result in sampling of rainwater discharge, the form is filled out and the reason why a sample was not collected is documented. Each form is reviewed and signed off by a supervisor and maintained in a booklet.</b>
8/1/17	17-505	Capital Programs	SWPPP	Ensure contractors adhere to training required by the CGP by periodically requesting to review training records.	Periodic reviews of training records will be implemented. <b>Update March 2018: Management will require the construction management consultant to perform monthly reviews of training records. In the updated Construction Management manual, the following language was added..."The CM is to review these reports and any Contractor training records on a monthly basis to ensure completeness and compliance with the State's Construction General Permit."</b>
8/1/17	17-505	HROD	SWPPP	Document in the SWPPPs the time periods when the bus bases conduct any function related to industrial activity.	SWPPPs will be revised to describe time periods when bus bases conduct industrial activity. Maintenance staff will be included as SWPPP team members. <b>Update March 2018: The updated SWPPP's now indicate that industrial activity occurs 24 hours a day, 365 days a year.</b>

**Audit Recommendations Closed During  
Third Quarter, Fiscal Year 2017-18**

8/1/17	17-505	HROD	SWPPP	Document the date that each SWPPP was initially prepared.	SWPPPs will be revised to include the date that each SWPPP was initially prepared. <b>Update March 2018: Updated SWPPP's reflect the date of preparation.</b>
8/30/17	18-501	F&A	Investments: Compliance, Controls, and Reporting	Internal Audit identified a discrepancy between the detailed investment portfolio listing and the investment summary report in the 2017 First Quarter Debt and Investment Report. Also, the Orange County Investment Pool balance reflected in the Second Quarter 2017 Debt and Investment Report was misstated by a minor amount. Internal Audit recommended management enhance review procedures to ensure line items are validated and schedules are reconciled before finalizing the report.	Management agreed and indicated that reconciliation procedures would be developed. <b>Update March 2018: An 18-step verification checklist has been created and implemented as part of the review process for the Quarterly Debt and Investment Reports.</b>