



July 25, 2018

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

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

Overview

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

Recommendation

Receive and file the fourth quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 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, and agreed-upon procedures reviews. Audits initiated by entities outside of OCTA are coordinated through Internal Audit.

Discussion

The OCTA Internal Audit Department Fiscal Year (FY) 2017-18 Internal Audit Plan (Plan), Attachment A, reflects the status of each audit project as of year-end. All planned audit projects have been completed or are in-progress at year end.

For the Plan year, Internal Audit completed 39 projects, including 26 pre-award agreed-upon procedure reviews (price reviews), 12 internal audits, and one Buy America review. Thirty fraud hotline complaints were received and reviewed, resulting in two limited-scope review reports, with recommendations to improve oversight and controls.

Internal Audit also provided coordination of an audit covering \$110.8 million in Proposition 1B funds conducted by the California Department of Finance, an on-site financial monitoring review covering \$1.1 million in Transit Security Grant Program funding, an audit of payroll transmittals conducted by the Orange County Employees Retirement System, and an on-site grant monitoring review covering \$3.5 million in California Transit Security Grant Program funds by the California Governor's Office of Emergency Services.

During the fourth quarter of FY 2017-18, Internal Audit issued an audit of the Fleetwatch Fluid Management System and concluded that controls in place over the dispensing of fuel and other consumables are adequate; however, one recommendation was offered regarding enhanced system access controls and periodic monitoring of user access assignments. Management agreed and indicated that procedures will be developed.

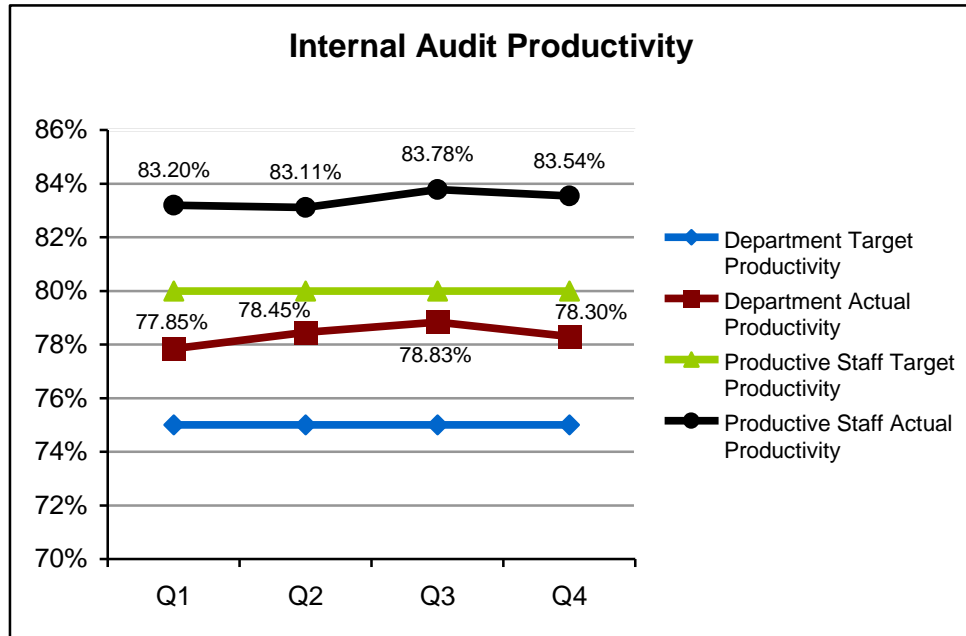
Internal Audit also issued an audit of Ralph M. Brown Act (Act) compliance and found that the OCTA operated substantially in compliance with the Act; however, some instances of non-compliance with agenda posting requirements were identified. A recommendation was made to provide staff training and/or enhance procedures to ensure consistent compliance. Management agreed and indicated that procedural enhancements have been implemented.

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

75 percent. The target for Internal Audit professional staff, not including the Executive Director, is 80 percent.

By the quarter ended June 30, 2017, Internal Audit had achieved cumulative productivity of 78 percent, and the professional staff achieved cumulative productivity of 83 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management Department (CAMP), and consistent with OCTA's 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. During the fourth quarter, Internal Audit completed nine price reviews. For the year ended June 30, 2018, a total of 26 price reviews were completed with recommended price adjustments, as indicated below:

Quarter	Recommended Price Adjustments
1st	\$ 4,069
2nd	538,528
3rd	51,072
4th	0
Total	\$ 593,669

Fraud Hotline

During the quarter ended June 30, 2018, Internal Audit received five reports through OCTA's Fraud Hotline, www.ethicspoint.com. Three reports were referred to management. One report was investigated by Internal Audit and the results reported to management for disposition, and a second report is under investigation at quarter end.

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 June 30, 2018, Internal Audit completed follow-up reviews of 20 outstanding audit recommendations. Fourteen recommendations had been appropriately addressed by management and are reflected at Attachment C. Two recommendations from the audit of Payment Card Industry Data Security Standards Compliance have been partially addressed, but will remain open until management takes additional action. Three recommendations from the audit of Administrative Employee Health Benefits also remain open pending management's development of certain policies and procedures. Finally, one recommendation from the audit of Contracted Fixed-Route Operations remains open until the new system to track insurance and bond requirements is fully operational.

One recommendation from the audit of the Fleetwatch Fluid Management System and another from the audit of Brown Act Compliance were added to the list.

Summary

The OCTA FY 2017-18 Plan is being closed-out. Projects that are in process will be carried forward to the OCTA FY 2018-19 Plan. Internal Audit will continue to perform follow-up of all outstanding findings and recommendations.

Attachments

- A. Orange County Transportation Authority Internal Audit Department Fiscal Year 2017-18 Internal Audit Plan, Fourth Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through June 30, 2018
- C. Audit Recommendations Closed During Fourth Quarter, Fiscal Year 2017-18

Prepared by:



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

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

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date Issued)	External Auditor
Mandatory External Independent Audits								
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	357	19	Complete	
External Regulatory Audits	FY18-005	Coordinate and report on external audits by regulatory or funding agencies.	Compliance	60	82	(22)	Ongoing	
Internal Audit Department Projects								
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	102	98		
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	74	46	Complete	
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	167	(7)	Complete	
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	160	160	30 Reports Received	2 Reports Issued
Automated Workpaper Solution	FY18-103	System updates/training related to automated workpaper solution.	Workpaper System	80	45	35	Ongoing	
Internal Audits								
Clerk of the Board								
Public Meetings / Brown Act Compliance	FY18-508	Assess systems and controls in place to ensure compliance with the Brown Act.	Compliance	160	243	(83)	Complete 5-3-18	
Security and Emergency Preparedness								
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	
Human Resources and Organizational Development								
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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Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date Issued)	External Auditor
Capital Programs								
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	490	(190)	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	164	136	In Process	
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	436	(196)	Complete 3-6-18	
Planning								
Comprehensive Transportation Funding Programs Projects	FY18-513	Review selected projects for compliance with Measure M Ordinance, policies, and procedures.	Compliance	240	207	34	In Process	
Transit Operations								
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	420	(180)	Complete 4-16-18	
ACCESS Service	FY18-514	Review and test compliance with key contract provisions, with consideration of program effectiveness and efficiency.	Internal Control/ Compliance	320	100	220	In Process	
Finance and Accounting								
Treasury	FY18-501, FY18-509	Semi-annual review of investments, compliance, controls, and reporting.	Compliance	200	278	(78)	2 Reports Issued 8-30-17	
Grant Closeouts	FY17-511, FY18-511	As-needed financial and compliance audits of grants at closeout to ensure propriety of expenditures.	Compliance	40	38	2	Complete 2-1-18 8-4-17	

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Contract Administration and Materials Management (CAMM)								
Price Reviews	PR17-XXX, PR18-XXX	Cost and price analyses as requested by OCTA's CAMM Department.	Agreed Upon Procedures	1,000	728	272	26 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	267	(27)	In Process	
Purchasing Cards	FY18-503	Assess and test controls over purchasing cards.	Internal Control	240	497	(257)	Complete 1-15-18	
Unscheduled Reviews and Special Requests								
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	174	146		
Monitoring Activities								
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	39	41	Ongoing	
Metrolink Audit Activities	FY18-602	Obtain and review audit results of Metrolink activities.	Non-Audit Activities	40	31	9	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	94	(14)	Complete	
Follow-up Reviews								
Follow-up Reviews and Reporting	FY17-7XX, FY18-7XX	Follow-up on audit findings and recommendations.	Follow-up	320	437	(117)		
Total Audit Project Planned Hours (A)				6,519	6,507	13		

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

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date Issued)	External Auditor
Internal Audit Administration								
Board of Directors and Committee Meetings				260	158	102		
Executive Steering and Agenda Setting Meetings				180	162	19		
Internal Audit Staff Meetings				150	87	64		
Other Administration				1,500	1,397	103		
			Total Hours (B)	8,609	8,310	300		
			Department Target Efficiency	75%				
			Target Efficiency - Professional Staff	80%				

**Outstanding Audit Recommendations
Audit Reports Issued Through June 30, 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.	Sep-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 the Orange County Transportation Authority (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. Update August 2017: Management has not achieved compliance or fully implemented an approach to address non-compliance. Update April 2018: Management plans to make appropriate changes to the environment and has targeted the 3rd quarter of 2018 to become PCI compliant. Internal Audit estimates progress towards completion is 10%.	Initiate next update Sep 2018
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.	Sep-18	Management agrees with the Internal Audit Department's (Internal Audit) 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. Update August 2017: Quarterly scans are not performed and submitted as management continues to assign resources to areas of non-compliance. Update April 2018: Management has targeted the third quarter of 2018 to be compliant with PCI scanning and remediation requirements. Internal Audit estimates progress towards completion is 25%.	Initiate next update Sep 2018

**Outstanding Audit Recommendations
Audit Reports Issued Through June 30, 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	Internal Audit recommends that Contracts Administration and Materials Management (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.	Aug-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. Update April 2018: Management has been working with the provider to set up the new system to review and track bond and insurance documentation for compliance; however, not all documents have been loaded into the system.	Initiate next update Aug 2018
10/19/17	17-506	Human Resources and Organizational Development (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.	Oct-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. Update April 2018: A report has been created that will assist in auditing contributions for eligible participants. A written procedure will be established in collaboration with payroll.	Initiate next update Oct 2018
10/19/17	17-506	HROD	Employee Health Benefits	Management should develop a written policy and procedures for collection of premiums in arrears.	Oct-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. Update April 2018: Management is working on a written policy and procedure to collect unpaid medical premiums.	Initiate next update Oct 2018

**Outstanding Audit Recommendations
Audit Reports Issued Through June 30, 2018**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
10/19/17	17-506	HROD	Employee Health Benefits	Management should seek Board of Directors (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.	Oct-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 approval in June 2018, along with the annual budget. Update April 2018: Management will consider revisions to the FY19 P&SR to clarify the policy. It will be presented for Board approval in June 2018, along with the annual budget.	Initiate next update Oct 2018
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.	Not yet due
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.	Not yet due

**Outstanding Audit Recommendations
Audit Reports Issued Through June 30, 2018**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
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.	Not yet due
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.	Not yet due

**Outstanding Audit Recommendations
Audit Reports Issued Through June 30, 2018**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
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.	Not yet due
4/16/18	18-506	Transit	Fleetwatch Fluid Management System	To enhance controls over access to Fleetwatch, Internal Audit recommended management reduce the number of administrators and power users in the system and implement procedures for periodic review of user access rights	Oct-18	Management agreed to develop procedures and will re-evaluate the current number of administrators and power users in the system.	Not yet due

**Outstanding Audit Recommendations
Audit Reports Issued Through June 30, 2018**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
5/3/18	18-508	Clerk of the Board	Brown Act Compliance	Management should provide additional training to staff and/or enhance procedures to ensure agendas are posted in a timely manner.	Nov-18	Management has implemented enhanced checklist procedures and provided staff training to ensure compliance.	Not yet due

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

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Management Response
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.	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. Update April 2018: 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.
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.	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. Update April 2018: 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.

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

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.	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. Update April 2018: 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. 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.
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 of Directors (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.	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. Update April 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.

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

8/30/17	17-508	Transit	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 Contracts Administration and Materials Management (CAMP) review all Request for Proposals (RFP) addendums to determine if there have been changes in attachments and exhibits, before finalizing contracts</p>	<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. CAMP'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. Update April 2018: The contract was amended to reduce the maximum obligation by the overstated fixed costs and to revise the Price Summary Sheet to reflect fixed costs being billed.</p>
9/27/17	18-502	Capital Programs	Right-of-Way Acquisition Activities for the Interstate 405 (I-405) Project K	<p>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.</p>	<p>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. Update April 2018: Management has developed written procedures for the reporting of administrative settlements and contracts executed under the Program for the I-405 Project, which provide the frequency and method of reporting.</p>

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

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 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.	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. 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. Human Resources and Organizational Development (HROD) management plans to incorporate a policy on testimonials into the Code of Conduct in April 2018. Update April 2018: A policy on testimonials has been included in the Code of Conduct Policy which was approved by the Board on April 23, 2018.
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.	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. Update June 2018: The coordinator has continued oversight activities over wheelchair accessibility, as recommended.

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

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.	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. Update June 2018: The coordinator has reviewed with KASA the program guidelines for allowable direct and indirect costs, requirements for supporting documentation, and monthly reporting requirements, as recommended.
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.	If support for the program is continued, OCTA staff will monitor this during the site visits. Update June 2018: The coordinator has instructed KASA to develop procedures to ensure that SMP trips are only provided to individuals 60 years of age and older. The coordinator has also ridden the service to determine if member identification cards are being checked.

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

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.	If support for the program is continued, OCTA staff will monitor this during the site visits. Update June 2018: The coordinator worked on an amendment to add churches and restaurants to the service plan. The coordinator has been questioning KASA when trips appear to be out of service plan. The coordinator has also been reviewing trips sheets as part of her monthly review.
2/15/17	16-509	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 approval.	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. Update June 2017: 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. Update March 2018: 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%. Update June 2018: Management provided the salary grade changes for FY 2018-19 with the supporting documentation for the changes to one job family. For the other changes, management provided explanations, as documented in the salary analysis forms for individuals impacted by the changes.

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Fourth Quarter, Fiscal Year 2017-18**

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.	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. Update October 2017: Since revisions to the Policy have not been finalized, Internal Audit will keep this recommendation open and return by the end of the FY. 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%. Update June 2018: Management has updated its Position Control Policy Procedures to include HR's monthly review of the Position Control Report to ensure the total budgeted headcount is not exceeded, as evidenced by initialing of the front sheet of the report.
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.	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. Update October 2017: 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. 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%. Update June 2018: Management included a paragraph in the FY 2018-19 budget staff report that explains why the two emergency malware vendors are included in the sole source list when other vendors could also provide these services.