



**February 8, 2012**

**To:** Finance and Administration Committee  
**From:** Will Kempton, Chief Executive Officer  
**Subject:** Fiscal Year 2011-12 Internal Audit Plan, Second Quarter Update

**Overview**

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2011-12 Internal Audit Plan on August 22, 2011. This update is for the second quarter of the fiscal year.

**Recommendation**

- A. Approve recommended amendment to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2011-12 Internal Audit Plan to remove the planned audit of Metrolink Cost Sharing and replace it with an annual monitoring activity that includes review of the results of the annual independent audit of Metrolink Member Agency Allocation that is commissioned by the Los Angeles County Metropolitan Transportation Authority.
- B. Receive and file the second quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2011-12 Internal Audit Plan.

**Background**

The Internal Audit Department (Internal Audit) is an independent appraisal function, the purpose of which is to examine and evaluate the Orange County Transportation Authority's (OCTA) operations and activities to assist management in the discharge of its duties and responsibilities.

Internal Audit performs a wide range of auditing services that include overseeing the annual financial and compliance audits, conducting operational and contract compliance reviews, internal control assessments, investigations, pre-award price reviews, and Buy America reviews. Audits initiated by entities outside of OCTA are coordinated through Internal Audit.

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***Discussion***

The OCTA Internal Audit Department fiscal year 2011-12 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project. As indicated, numerous projects were completed or are underway. Most notably, however, the annual financial audit of OCTA was completed by independent auditors Vavrinek, Trine, Day and Company, LLP (VTD). The annual financial and compliance audits consist of OCTA's Comprehensive Annual Financial Report, audits of related entity financial statements, and certain other special purpose reports required by the State of California or other parties.

In relation to its annual financial audit, VTD issued a management letter that identified six control deficiencies as defined by the American Institute of Certified Public Accountants *Statement on Auditing Standards Number 115*. The auditors also had several findings related to other reports for the fiscal year ended June 30, 2011. All of these can be found on pages 4 through 6 of Attachment B. Management concurred with the recommendations and provided corrective action plans as indicated.

In addition to the annual financial and compliance reports issued, Internal Audit completed a compliance, controls, and accounting audit of investments for the period January 1 through June 30, 2011. Two recommendations were made to improve consistency with the Debt and Investment Manual and to enhance review of the Quarterly Debt and Investment reports.

Internal Audit also completed a review of fuel controls that identified weaknesses in the controls over fuel dispensing. The results of this review were presented to the Finance and Administration Committee (Committee) on December 2, 2011. Internal Audit plans to return to the Committee to report on the status of management's corrective action in February 2012.

Finally, a review of maintenance materials management was performed and issued. This review concluded that policies, procedures, and controls in place are generally adequate and only one recommendation to enhance the process for monitoring inventory adjustments was made. Management agreed and indicated that corrective action will be taken.

**Recommended Amendment to the Fiscal Year 2011-12 Internal Audit Plan**

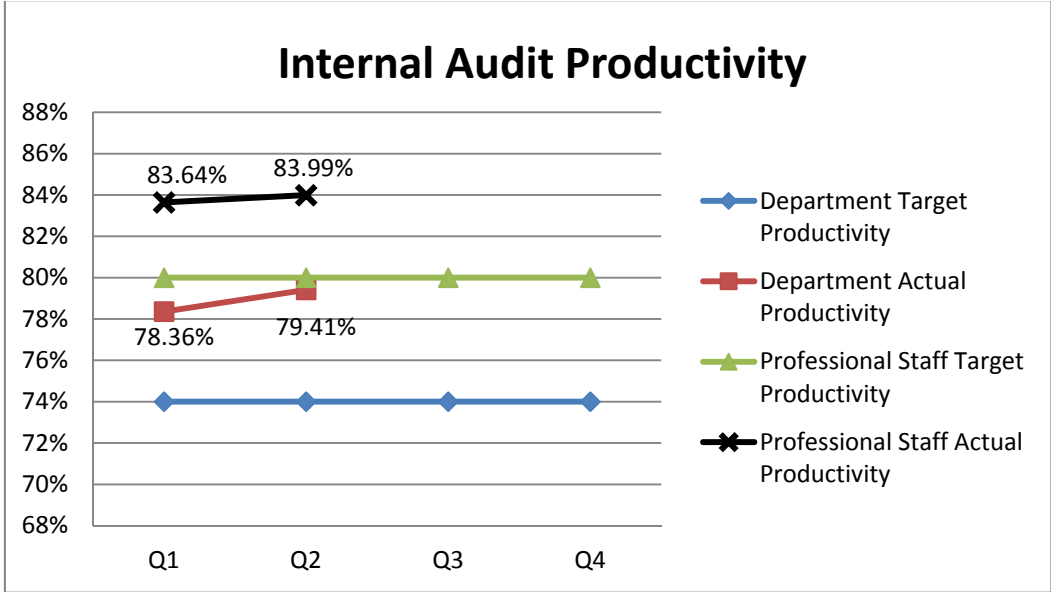
During the quarter ended December 31, 2011, Internal Audit met with Metrolink management to initiate an audit of Metrolink's Member Agency Allocation. Through discussions, Internal Audit learned that the Los Angeles County Metropolitan Transportation Authority (LACMTA) coordinates an annual, independent audit of the Metrolink Member Agency Allocation. The most recent audit, for fiscal year 2009-10, was obtained and reviewed by Internal Audit.

Based on review of the results, and in an effort to prevent duplication of effort, Internal Audit is recommending the Plan be adjusted by deleting this review and adding a project under Monitoring Activities to include hours for Internal Audit to obtain and review the LACMTA annual independent audit of Member Agency Allocation on an annual basis. Excess hours from this planned review will be added under Unscheduled Audits and Special Requests.

Internal Audit Department Productivity

Internal Audit measures the productivity of the department by calculating a productivity ratio. The ratio, used broadly throughout the audit industry, measures the amount of time auditors spend on audit projects versus time spent on administrative duties. Productivity goals are established for both the professional staff and for the department as a whole. Because the executive director regularly participates in non-audit management activities such as planning and committee meetings, the department-wide target is set at 74 percent. The target for internal audit professional staff, not including the executive director, is 80 percent.

For the second quarter ended December 31, 2011, Internal Audit achieved productivity of 78 percent, and the professional staff achieved productivity of 84 percent.



At the request of the Contracts Administration and Materials Management Department, and consistent with OCTA procurement policy, Internal Audit conducts reviews of single bid procurements to ensure that the OCTA solicitation process is adequate to stimulate competition. Internal Audit also reviews prices proposed by architectural and engineering firms and sole source contractors to ensure that the prices are fair and reasonable. Internal Audit makes recommendations to adjust proposed rates where they exceed the rates per review. When the value of recommended adjustments can be estimated, Internal Audit tracks and reports these savings, as noted below. During the quarter ended December 31, 2011, Internal Audit completed three price reviews and issued recommendations for rate adjustments valued at \$380,945.

Quarter	Price Reviews: Recommended Adjustments
1Q	\$ 0
2Q	\$380,945
3Q	
4Q	
Total	\$380,945

**Fraud Hotline**

During the quarter ended December 31, 2011, Internal Audit received four complaints through OCTA's Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com). All four complaints were investigated and the appropriate action taken.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the fiscal year, Internal Audit has received a total of four reports and responded to all within eight business days and, on average, responded within two business days.

**Findings and Recommendations Tracking**

At the request of the Committee, unresolved audit recommendations are included with the quarterly updates to the Plan as Attachment B. Internal Audit includes the findings and recommendations generated internally, as well as those provided by regulatory auditors and OCTA's independent financial statement auditors.

***Summary***

Internal Audit will continue to implement the OCTA Fiscal Year 2011-12 Internal Audit Plan, monitor performance metrics, and report the status on a quarterly basis.

***Attachments***

- A. Orange County Transportation Authority Internal Audit Department  
FY 2011-12 Internal Audit Plan Second Quarter Update (Amended)
- B. Unresolved Audit Findings and Recommendations (Audit Reports Issued  
Through January 23, 2012)

**Approved by:**



Janet Sutter  
Executive Director, Internal Audit  
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**Orange County Transportation Authority  
Internal Audit Department  
FY 2011-12 Internal Audit Plan  
Second Quarter Update (Amended)**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date to F&A)	External Auditor
<b>Mandatory External Independent Audits</b>								
Annual Financial Audit	FY12-000	Annual financial and compliance audits for fiscal year 2011-12.	Financial	520	198	323	Complete (1-23-12)	Vavrinek, Trine, Day & Co.
Annual Transportation Development Act (TDA) Audits	FY12-001	Coordination of required annual audits of the recipients of TDA Funds for fiscal year 2011-12.	Compliance	160	125	35	Complete (1-23-12)	Vavrinek, Trine, Day & Co.
Orange County Council of Governments (OCCOG) Financial Statement Audit	FY12-005	Management of external audit of OCCOG financial statements and ad-hoc audit assistance.	Financial	20		20	Complete (1-23-12)	Vavrinek, Trine, Day & Co.
<b>Internal Audit Projects</b>								
Risk Assessment and Annual Audit Plan	FY12-100	Annual preparation of the audit plan, quarterly updates to the audit plan, periodic assessment of risk throughout the year.	Risk Assessment	180	79	101	Ongoing	
Quality Assurance and Self-Assessment	FY12-101	Update of Internal Audit Policies & Procedures. Annual self assessment of Internal Audit's compliance with Government Auditing Standards.	Quality Assurance	120		120	Ongoing	
Fraud Hotline	FY12-102	Investigations of reports of fraud, waste, or abuse.	Fraud Hotline	100	44	56	4 Complaints Reviewed	
Audit Leverage Software System	FY12-103	Deploy updates/upgrades to Audit Leverage software.	Audit Software Updates	40	12	28	Ongoing	
General Auditing - On-Call Services	FY12-104	Issue request for proposals, evaluate, and select firms for on-call auditing services.	On-Call Auditing	60		60		
<b>Internal Audits</b>								
<b>Human Resources and Organizational Development</b>								
Worker's Compensation	FY12-509	Review of policies, procedures, and related contracts to ensure adequate controls, effectiveness, and efficiency of the worker's compensation program.	Operational	260	61	199	In Process	
Employment	FY12-	Review of controls and efficiency of candidate recruitment, selection, and hiring.	Operational	240		240		
Department of Motor Vehicles Pull Notice Program	FY12-503	Review of the Pull Notice Program and testing of controls in place to ensure compliance.	Internal Control	180	246	(66)	In Process	

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Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours to Date	Under (Over)	Status (Date to F&A)	External Auditor
<b>Capital Projects</b>								
Orangethorpe Corridor Grade Separation Projects	FY11-501	Review of selected contracts for project management, design, and preliminary engineering for the Orangethorpe Corridor Railroad Grade Separations.	Compliance	450		450		
Contract Retention	FY11-502	Review of policies, procedures, and practices for contract retention and release.	Compliance	175		175		
State Route 57 Improvements	FY11-503	Review of selected contracts for design and preliminary engineering for State Route 57 improvements.	Compliance	250	294	(44)	In Process	
Combined Transportation Funding Program (CTFP) Project Audits	FY12-508	Preliminary risk assessment, selection of projects, and coordination with outside firm for review of selected CTFP projects for compliance with Measure M requirements.	Compliance	170	39	131	In Process	
Metrolink Service Expansion Program	FY11-505	Review of cooperative agreement with Metrolink for infrastructure improvements related to the implementation of 30 minute service.	Compliance	260		260		
<b>Transit Operations</b>								
Security - Rolling Stock	FY12-506	Review contracts, systems, and controls in place to ensure the safety and security of the rolling stock.	Internal Control	175	109	66	In Process	
Contracted and Paratransit Operations	FY10-503	Review to ensure contract compliance and verify propriety of payments. Two reviews will be conducted: MV Transportation, Inc. (fixed-route service) and Veolia Transportation Services, Inc. (ACCESS service).	Compliance	100	216	(116)	2 Complete (9-14-11)	
<b>Government Relations and Intergovernmental Activities</b>								
Grant Close-outs	FY11-402 FY12-400	As needed financial and compliance audits of grants at close-out to ensure propriety of expenditures.	Compliance	80	25	55	1 Complete (08-24-11)	
<b>Finance and Accounting</b>								
Treasury	FY11-508 FY12-500	Bi-annual financial and compliance reviews of the treasury function, including investment and bond compliance.	Compliance	300	127	173	In Process	
Toll Road Operations - Revenue and Accounting Management System (RAMS)	FY12-502	Prepare scope and coordinate review of Cofiroute's RAMS.	Internal Control	120	31	89	In Process	
Corporate Credit Cards	FY12-507	Review and testing of internal controls in place over corporate credit cards.	Internal Control	160	69	91	In Process	

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FY 2011-12 Internal Audit Plan  
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<b>Contracts &amp; Materials</b>								
Price Reviews	PR12-000	Cost and price analyses as required by OCTA procurement policies and procedures.	Price Review	1,000	272	728	4 Complete 1 Cancelled	
Maintenance Inventory Management	FY09-022	Review of inventory management policies, procedures, controls, operational efficiency, and analytic tools.	Operational	175	348	(173)	Complete (1-23-12)	
Fuel Controls	FY09-024	Review of controls over dispensing of petroleum products.	Internal Control	100	298	(198)	Complete (12-12-11)	
<b>Information Systems</b>								
Payment Card Industry (PCI) Data Securities Standards (DSS) Compliance	FY11-507	Review of OCTA's compliance with PCI DSS, including review and evaluation of annual self-assessment to ensure protection of credit card data.	Compliance	20	11	9	Complete (7-13-11)	
Telecommunications Equipment	FY09-020	Review of telecommunications equipment usage and internal controls.	Internal Control	80	83	(3)	In Process	
<b>Unscheduled Reviews and Special Requests</b>								
Unscheduled Reviews and Special Requests	FY12-800	Time allowed for unplanned audits and requests from the Board of Directors and management.	Varies	300	24	276		
<b>Monitoring Activities</b>								
Measure M Taxpayers Oversight Committee	FY12-601	Coordination of audit activities with the Audit Subcommittee of the Measure M Taxpayers Oversight Committee.	Monitoring	120	53	68		
Metrolink Cost Sharing	FY12-	Review of scope of work and results of Los Angeles County Metropolitan Transportation Authority's annual independent audit of Metrolink member agency allocation.	Financial	100	40	60		
Radio Upgrade	FY12-602	Ongoing monitoring of Intelligent Transportation Management System upgrade by Affiliated Computer Systems, Inc. and EIGER TechSystems, Inc.	Monitoring	25		25		
Bus Base Inspections and Inventory Testing	FY12-603	Participation on base inspection teams.	Monitoring	40		40		
<b>Follow-up Reviews</b>								
Follow-up Reviews and Reporting	FY12-700	Follow-up on audit findings and recommendations.		250	138	113		
<b>Total Audit Project Planned Hours (A)</b>				<b>6,330</b>	<b>2,939</b>	<b>3,391</b>		



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<b>Internal Audit Administration</b>								
Board of Directors and Board Committee Meetings				380	90	290		
Executive Steering Committee and Agenda Meetings				160	55	105		
Internal Audit Department Staff Meeting				240	29	211		
Other Administration				1,500	588	912		
			<b>Total Hours (B)</b>	<b>8,610</b>	<b>3,701</b>	4,909		
			<b>Department-Wide Target Efficiency (A/B)</b>	74%				
			<b>Department-Wide Actual Efficiency (A/B)</b>		<b>79%</b>			
			<b>Target Efficiency - Professional Staff</b>	80%				
			<b>Actual Efficiency -Professional Staff</b>		<b>84%</b>			

**UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS**

*(Audit Reports Issued Through January 23, 2012)*

<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>Auditor</b>	<b>Notes</b>
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	Management should develop and implement password administration controls to address weaknesses.	Apr-12	OCTA's Information Systems (IS) Department is in the process of upgrading the Windows server environment. Once this is complete, staff will solicit consulting support to bind complex passwords to the Lightweight Directory Access Protocol (LDAP). This should be completed by the end of FY2010-11. <u>Update January 2011</u> : The Windows Active Directory project is still underway and is scheduled to be completed by April 2011. <u>Update September 2011</u> : The completion of the Windows 2008 Active Directory project has been delayed. The Windows 2008 project is now scheduled for completion in November, 2011. IS will then implement binding of the Lawson LDAP to the Microsoft Active Directory. For the password binding to be enabled, OCTA staff must also implement an upgrade to the Lawson application. This is scheduled for January, 2012 and is projected to take three months to complete.	Bonelli	Initiate next update in April 2012.
11/19/2008	08-001A	Information Systems	Payroll Systems Controls Review	Management should prioritize the development of a comprehensive business continuity plan.	Apr-12	The Board of Directors has approved the selection of a vendor to provide real time "warm" site backup to our mission critical applications. The project is in its implementation stage and should be complete by the end of FY 2010-11. <u>Update September 2011</u> : The Disaster Recovery project is in the final stages of system testing and is expected to be completed in mid-October.	Bonelli	Initiate next update in April 2012.
2/5/2010	08-010	Metrolink	Review of Metrolink Activities	OCTA Internal Audit provided seven recommendations for improvements in Metrolink's internal audit function. Metrolink's Board of Directors will consider the report in March 2010.	Nov-11	Metrolink management concurred with all recommendations and proposed implementing action. Once the matter is reviewed by the Metrolink Board of Directors, OCTA Internal Audit will report outcomes to OCTA's Finance and Administration Committee, as directed. <u>Update April 2011</u> : There is significant, ongoing work effort by Metrolink management to address all outstanding audit findings and implement corrective actions recommended by the audits where necessary. Metrolink staff plans to bring detailed recommendations to the Executive Management and Audit Committee by June 2011.	Bonelli	In process.

**ATTACHMENT B**

**UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS**

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5/26/2010	09-021	Transit	State Triennial Performance Audit	Booz Allen Hamilton (BAH) recommended that OCTA establish an ongoing performance monitoring process to compare service performance before and after the March 2010 service change to assist OCTA in identifying customer impacts and highlight opportunities to adjust resources	Mar-12	OCTA will conduct a systemwide transit study to evaluate the remaining network. The study will include analysis of performance metrics as well as public outreach. The study is expected to be completed in the third quarter of 2011. <u>Update September 2011:</u> The Transit System study is now expected to be completed in the fourth quarter.	Sutter	Next follow-up scheduled for March 2012.
5/26/2010	09-021	Transit	State Triennial Performance Audit	BAH recommended that OCTA study the cost drivers associated with the fixed-route service and consider options to control costs.	Mar-12	OCTA will conduct a systemwide transit study to evaluate the remaining network. The study will include this sort of analysis and is expected to be completed in the third quarter of 2011. OCTA will also address system costs during labor negotiations, continue to evaluate contracting opportunities, and continue legislative advocacy for improved funding. <u>Update September 2011:</u> The Transit System Study is now expected to be completed in the fourth quarter.	Sutter	Next follow-up scheduled for March 2012.
2/23/2011	09-015	Capital Projects	Real Estate and Right-of-Way Administration	Management should develop procedures for fair market adjustments to lease rates.	Feb-12	Right-of-way (ROW) staff will develop policies and procedures to enforce the fair market adjustment terms and conditions for revenue-generating leases. <u>Update August 2011:</u> Policies and procedures have not yet been developed. Management plans to update the policies and procedures manual in its entirety by the first quarter of 2012.	Ng	Next follow-up February 2012.
2/23/2011	09-015	Capital Projects	Real Estate and Right-of-Way Administration	Lease rate adjustments and Consumer Price Index increases should be consistently implemented.	Feb-12	ROW staff will review leases with terms greater than one year on a monthly basis to determine if a fair market (FM) adjustment is warranted. Also, staff will coordinate its efforts with Accounting staff for billing adjustments. <u>Update August 2011:</u> Staff has added a column for FM adjustment dates in its tickler files and is developing procedures for FM adjustments.	Ng	Next follow-up February 2012.

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2/23/2011	09-015	Capital Projects	Real Estate and Right-of-Way Administration	Insurance certificates should be reviewed for compliance with lease requirements. For non-revenue generating leases, a review of insurance certificates should be done on a periodic, or cycle, basis. Additionally, transferred leases should be reviewed to ensure agreements contain appropriate insurance requirements.	Feb-12	Staff will review leases to determine insurance certificate update needs and that transfer lease language is updated. Staff will coordinate insurance requirements with Risk Management staff. <u>Update August 2011</u> : Staff has reviewed the insurance requirements of approximately 18 percent of the revenue-generating leases and has requested required certificates. The initial review of all leases is expected to be completed by February 2012 and the process will then be ongoing.	Ng	Next follow-up February 2012.
4/13/2011	11-005	Measure M City Audits: City of San Juan Capistrano	San Juan Capistrano	Auditors recommended that the City of San Juan Capistrano (SJC) submit a request for extension to OCLTA for funds not spent within three years, and that SJC ensure interest is allocated to unspent turnback monies.	Mar-12	SJC responded that a request for extension would be submitted to OCLTA and that turnback funds will be segregated to ensure accurate interest allocation to the fund in the future. <u>Update September 2011</u> : SJC did not submit a request for extension; however the excess funds were spent during the FY2010-11. In addition, as of the follow up review date, SJC had not yet segregated Measure M funds to ensure proper interest allocation.	Bonelli	Next update March 2012.
8/22/2011	11-508	Finance and Administration	Investments: Compliance, Controls and Accounting July 1 through December 31, 2010	Internal Audit noted that OCTA's investment holdings as of December 31, 2010, did not adhere to investment diversification requirements outlined in the Investment Policy. Internal Audit recommends management review and revise the policy as applicable and ensure any instances of non-compliance are properly disclosed to the Board of Directors.	Feb-12	Limiting investment of bond proceeds to the maturity and diversification guidelines of the OCTA Investment Policy creates an issue during the startup of a bond proceeds portfolio. Staff will draft suitable language that addresses this issue.	Ng	
8/22/2011	11-508	Finance and Administration	Investments: Compliance, Controls and Accounting July 1 through December 31, 2010	A review of two invoices under Agreement No. C-8-0883 for financial advisory services (Agreement) noted \$8,200 in fees billed for personnel not listed in the Agreement. Internal Audit recommends that management amend the Agreement, as necessary, to include all authorized personnel.	Feb-12	Management concurs with Internal Audit's recommendation and will amend the Agreement to include the additional analyst personnel.	Ng	
9/26/2011	10-503	Transit	Review of MV Transportation, Inc. Agreement	MV Transportation, Inc. (MV) is not in compliance with agreement terms related to maintaining the unclassified revenue percentage within OCTA standards. Internal Audit recommends that Community Transportation Services (CTS) develop a process to monitor compliance with this contract provision.	Mar-12	CTS has implemented a monitoring protocol which includes the review of fare activity reports identifying individual operators who require additional instruction on the proper fare box procedures. CTS staff will meet with MV management weekly to review reporting information and ensure compliance with standard.	Dunning	

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9/26/2011	10-503	Transit	Review of MV Transportation, Inc. Agreement	Internal Audit recommends that agreement language be reviewed and amended as appropriate to properly outline required versus desired training and qualifications.	Mar-12	Concurrent with a future amendment to the agreement, contract language will be amended to outline the training and qualification requirements.	Dunning	
10/26/2011	12-500	Finance and Administration	Investments: Compliance, Controls and Accounting January 1 through June 30, 2011	Internal Audit recommends management either include the requirement for a minimum of three bids in the investment manager agreements or revise the Debt and Investment Management Manual accordingly.	Apr-12	Management agrees with this recommendation and will revise the Debt and Investment Management Manual accordingly.	Ng	
10/26/2011	12-500	Finance and Administration	Investments: Compliance, Controls and Accounting January 1 through June 30, 2011	Internal Audit recommends that management enhance review of the Quarterly Debt and Investment Reports to minimize errors.	Apr-12	The Treasurer reviews selected data for accuracy and in the future will continue this practice. The Treasurer shall document the verification process by initializing sample statements and balances.	Ng	
11/7/2011	09-024	Transit	Review of Fuel Controls	Internal Audit recommends that management implement controls, and enhance policies and procedures to ensure fueling transactions are valid and authorized and appropriate monitoring and follow-up is performed.	May-12	There are a number of steps underway to address the findings in this audit; including: (1) Limiting overall access to the EJ Ward system by limiting the badge numbers that are authorized to dispense fluids tracked by the EJ Ward system. (2) Ensuring a process is implemented to update contractor staff who are authorized to dispense fluids tracked by the EJ Ward system. (3) Ensuring that vehicle information transmitters are functioning on contractor-operated revenue vehicles on a daily basis. (4) Revising the procedure to fuel non-revenue vehicles, limiting those authorized to do so, and relying predominantly on vehicle service workers to accomplish this task. 5. Working with EJ Ward to discontinue the ability for anyone to fuel a vehicle unless valid employee badge and vehicle identification numbers are used.	Bonelli	
11/7/2011	09-024	Transit	Review of Fuel Controls	Internal Audit recommends that management strengthen the invoice review process to ensure that the vendor complies with the requirements of the agreement and that payment is withheld for transactions that are not properly supported.	May-12	To address this recommendation, Transit management proposes to cancel the contract with Mitchell's Pit Stop. Maintenance and General Services staff will develop a plan to transport the vehicles garaged at the Orange offices to the Garden Grove base for periodic fueling.	Bonelli	

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1/11/2012	N/A	Finance and Administration	Single Audit Report	Auditors noted that agreements between OCTA and federal subrecipients did not include required federal award information, such as the Catalog of Federal Domestic Assistance (CFDA) award title and number, American Recovery and Reinvestment Act (ARRA) information, award name, and federal agency.	Jan-13	Management agreed to correct the omissions and to include required information in future awards	Vavrinek, Trine, Day & Co., LLP	
1/11/2012	N/A	Finance and Administration	Agreed Upon Procedures with respect to the Treasury Department and Management Letter	OCTA's Investment Policy (Policy) refers to investment agreements as an allowable investment. The reference to investment agreements is misplaced in the Policy and only applies to bond proceeds investments.	May-12	Management agreed to update the Policy to correct the error.	Tang	
1/11/2012	N/A	Finance and Administration	Agreed Upon Procedures with respect to the Treasury Department	The report also noted that, while a six page summary report of upcoming investment activities is provided, minutes are not maintained to record weekly funds management team meetings.	May-12	Management agreed to record meetings by obtaining signatures of attendees on the meeting agenda.	Sutter	
1/11/2012	N/A	Finance and Administration	Agreed Upon Procedures with respect to the OCTA and OCLTA Appropriations Limits Worksheets	In calculating both the OCTA and OCLTA appropriation limits for fiscal year 2010-11, staff used a population change factor of 1.03 rather than 1.01. The error had no impact because appropriations were well below the limit.	Jan-13	Management agreed to correct the error during the fiscal year 2011-12 budget process.	Vavrinek, Trine, Day & Co., LLP	
1/11/2012	N/A	Finance and Administration	Single Audit Report	OCTA should modify its policies and procedures for accounting for compensated absences.	Jan-13	Only compensated absences for terminations will be reported in the General Fund. Additionally, an analysis of employees eligible for termination payments in future periods will be performed. Accounting procedures will be modified.	Vavrinek, Trine, Day & Co., LLP	
1/11/2012	N/A	Finance and Administration	Single Audit Report	OCTA should formally incorporate a procedure to evaluate the beginning equity impact of any change in accounting principles adopted during the current period.	Jan-13	Staff will include a procedure at year-end to review the impact on beginning fund equity of any changes in accounting principles.	Vavrinek, Trine, Day & Co., LLP	

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1/11/2012	N/A	Finance and Administration	Single Audit Report	OCTA should identify to subrecipients the Award Identification at time of award. The information should include the CFDA number, award name, name of federal agency and whether the grant was funded from ARRA sources. In addition, OCTA should identify that the funds are ARRA at the time of disbursement.	Jan-13	OCTA has already taken steps to correct the omission of the CFDA number from the existing subrecipient reporting. Moving forward, OCTA will include all required information in the award report. In addition, OCTA will identify that the funds are ARRA at the time of disbursement (as appropriate).	Vavrinek, Trine, Day & Co., LLP	
1/11/2012	N/A	Finance and Administration	Management Letter	OCTA should reconcile the Additional Retiree Benefits Account (ARBA) Trust Account in a more timely manner.	Jan-13	Staff will reconcile the ARBA Trust Account within two weeks of receipt of the ARBA Statement.	Vavrinek, Trine, Day & Co., LLP	
1/11/2012	N/A	Finance and Administration	Management Letter	OCTA should require a <i>Service Organization Report (SOC 1, Type II report)</i> from Cofiroute on an annual basis or that OCTA perform periodic reviews of Cofiroute's internal controls.	Jan-13	OCTA will commence discussions with the operator to require that they provide this report.	Vavrinek, Trine, Day & Co., LLP	
1/11/2012	N/A	Finance and Administration	Management Letter	OCTA should perform periodic reviews to confirm access rights to the financial reporting systems and verify that employee access remains commensurate with job responsibilities.	Jan-13	Information Systems will provide the Accounting Department with reports containing user access data to the financial reporting systems twice yearly. Accounting will perform a logical access review and any discrepancies will be documented and corrected.	Vavrinek, Trine, Day & Co., LLP	
1/11/2012	N/A	Finance and Administration	Management Letter	OCTA should consider implementing the following best practices: (1) passwords that expire after 90 days (2) automatic lockout after a specified number of failed login attempts, and (3) passwords that are complex.	Jan-13	Recommended password management practices will be in place by January 2012.	Vavrinek, Trine, Day & Co., LLP	
1/11/2012	N/A	Finance and Administration	Management Letter	While no formal time period is recommended, the risk assessment and cost/benefit analysis of both desktop and server patch management should be reviewed to ensure risks are adequately addressed.	Jan-13	Information Systems will continue to follow its current practice of reviewing patches to determine the impact to OCTA business operations and will document this assessment. Emergency or out of band patches sent by any vendor will be attended to immediately. Other patches, of a less critical nature, will be applied on a quarterly basis.	Vavrinek, Trine, Day & Co., LLP	

**UNRESOLVED AUDIT FINDINGS AND RECOMMENDATIONS**

*(Audit Reports Issued Through January 23, 2012)*

<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>Auditor</b>	<b>Notes</b>
1/11/2012	09-022	Finance and Administration	Review of Maintenance Materials Management	Management should implement procedures for an independent review of the inventory adjustments report and validation of a sample of transactions. These reviews should be documented.	Jun-12	A report of all inventory adjustment transactions will be generated daily and a random sample will be validated by an independent source. Someone other than the individual that performed the transaction will validate the adjustment. Documents supporting the validation will be maintained for six months.	Dunning	