



July 23, 2014

To: Finance and Administration Committee

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

Subject: Fiscal Year 2013-14 Internal Audit Plan, Fourth Quarter Update

Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2013-14 Internal Audit Plan on August 12, 2013. This update is for the 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 2013-14 Internal Audit Plan.

Background

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

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

Discussion

The OCTA Fiscal Year (FY) 2013-14 Internal Audit Plan (Plan), Attachment A, reflects the status of each audit project as of year-end. As indicated, numerous projects were completed or are in progress. For the Plan year, Internal Audit completed 37 projects, including 23 pre-award agreed-upon procedure reviews

(price reviews) and two Buy America reviews. Another six projects are in-process as of year-end, and one project has not yet been initiated. Twenty-eight hotline complaints were received and reviewed, investigated, and/or referred to management as appropriate. Internal Audit also provided coordination of outside agency audits, including the FY 2013 Federal Transit Administration's (FTA) Triennial Audit, the Department of Homeland Security, Federal Emergency Management Agency's Financial Monitoring Review of 2009 through 2012 Transit Security Grant Program Funding, and the California Governor's Office of Emergency Services, Grant Monitoring Review of FY 2009-10 California Transit Security Grant Program, Award No. 62610002. Two other regulatory audits are underway as of year-end; a California Department of Transportation Incurred Cost Audit and an audit of the Highway Railroad Crossing Safety Account, Project Agreement No. 75GS019, by the California State Controller's Office.

The total budget for the FY 2013-14 Plan was approximately 8,600 hours, which represents total staff time available for audits after deducting for holidays, sick time, vacation, and continuing professional education. As reflected in the Plan, time spent on fraud investigations and price reviews exceeded the budget by approximately 500 hours. Budget variances in these areas are not uncommon as the volume and type of price review work and hotline complaints fluctuates from year to year.

During the fourth quarter of FY 2013-14, Internal Audit issued a review of purchase order issuance and oversight, and found that purchase orders are generally procured in accordance with OCTA policies and procedures; however, recommendations were made to strengthen invoice review controls to ensure compliance with purchase order terms and to update policies and procedures over sole source purchases and services marketed by brokers. Internal Audit also issued the Review of Investments: Compliance, Controls and Accounting for the period July 1 through December 31, 2013, and made one recommendation to update the OCTA Investment Policy to address situations where an investment manager's non-compliance is directed by OCTA staff, therefore, not treated as a violation.

The Review of the Orange County Transportation Authority Store, issued in June, recommended that the new point of sale system be designed to provide appropriate segregation of duties and limits on access as appropriate, with maintenance and review of detailed records of access levels. The review also recommended improvements in the changing of alarm codes and locks/combinations, assignment of keys and combinations, and dual control of spare keys and keys to the backup cash drawer. Finally, procedures should be updated to include surprise counts of cash and inventory items to verify the accuracy of balancing records and the perpetual inventory system.

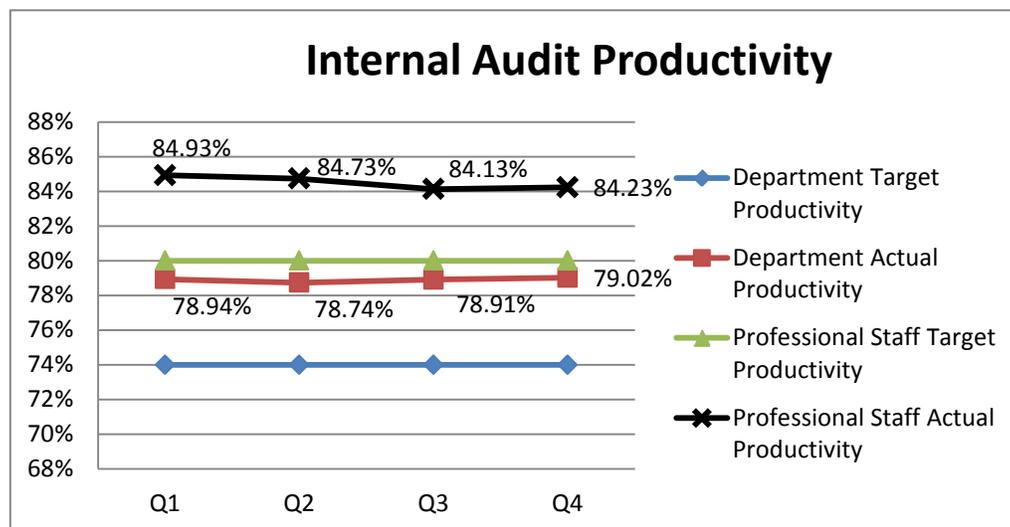
Also, during the quarter, the California Governor’s Office of Emergency Services issued the results of its review of the OCTA’s grant processes and documentation related to a FY 2009-10 California Transit Security Grant Program Award No. 62610002. No findings resulted from the review.

Finally, the FTA completed the FY 2013 Triennial Review of OCTA. Deficiencies were found in five of the 18 areas reviewed. One reported deficiency related to the provision of door-to-door paratransit service. The FTA reviewers recommended that OCTA cease the practice of charging a fee for door-to-door paratransit service; however, management and legal counsel expressed disagreement with the finding and intend to continue the practice while undertaking discussions with the FTA regional office. As of this staff report date, FTA has notified OCTA that all but three findings have been closed.

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 year ended June 30, 2014, 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 (CAMM), and consistent with OCTA's procurement policy, Internal Audit conducts reviews of single bid procurements to ensure that CAMM handled the procurement in a fair and competitive manner. Internal Audit also reviews prices proposed by architectural and engineering firms and sole source contractors to ensure that the prices are fair and reasonable. Internal Audit makes recommendations to adjust proposed rates where they exceed the rates per review. When the value of recommended adjustments can be estimated, Internal Audit tracks and reports these savings, as noted below. For the year ended June 30, 2014, Internal Audit conducted 23 price reviews and recommended price adjustments, as indicated below:

Quarter	Price Reviews Recommended Adjustments
1	\$ 868,085
2	\$ 107,208
3	\$ 2,062
4	\$ 1,192,050
Total	\$ 2,169,405

Fraud Hotline

Twenty-eight reports were filed through the hotline during the year ended June 30, 2014. Of these, 11 represented complaints from customers that were referred to customer service personnel. Another 13 complaints were referred to management for handling, and four complaints were investigated by Internal Audit. As part of the administration of the hotline, Internal Audit maintains documentation of each complaint and its disposition.

Findings and Recommendations Tracking

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

During the quarter ended June 30, 2014, Internal Audit performed follow-up of five unresolved audit recommendations. Four were removed from the list and additional testing of one recommendation will be performed in six months.

A total of six recommendations were added to the list relating to audits that were issued during the quarter.

Summary

The Orange County Transportation Authority Fiscal Year 2013-14 Internal Audit Plan is being closed-out. Projects not yet initiated or in process will be carried forward to the Orange County Transportation Authority Fiscal Year 2014-15 Internal Audit Plan. Internal Audit will continue to perform follow-up of all unresolved findings and recommendations.

Attachments

- A. Orange County Transportation Authority Internal Audit Department Fiscal Year 2013-14 Internal Audit Plan, Fourth Quarter Update
- B. Unresolved Findings and Recommendations, Audit Reports Issued through June 30, 2014

Prepared by:



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

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2013-14 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 Audit	FY14-001, FY14-002, FY14-003, FY14-006	Coordination and oversight of annual financial and compliance audits for fiscal year (FY) 2013-14.	Financial	450	373	78		Vavrinek, Trine, Day & Co.
Annual Transportation Development Act Audits	FY14-004	Coordination of required annual audits of the recipients of Transportation Development Act funds for FY 2013-14.	Compliance	40	6	34		Vavrinek, Trine, Day & Co.
Triennial Review - Federal	FY14-005	Coordination of Federal Transit Administration triennial review.	Compliance	160	182	(22)	Issued 3-26-14	Millgan & Company LLP

Internal Audit Department Projects

Risk Assessment and Annual Audit Plan	FY14-100	Annual preparation of the audit plan, quarterly updates to the audit plan, and periodic assessment of risk throughout the year.	Risk Assessment	180	175	6	Ongoing	
Quality Assurance and Self-Assessment	FY14-101	Update of Internal Audit Policies & Procedures. Annual self-assessment of Internal Audit's compliance with Government Auditing Standards.	Quality Assurance	120	117	3	Complete	
Fraud Hotline	FY14-102	Administrative duties related to maintenance of the Fraud Hotline and work related to investigation of reports of fraud, waste, or abuse.	Fraud Hotline	200	505	(305)	Ongoing	28 Reports Received
Automated Workpaper System	FY14-103	Procure and implement automated workpaper and timekeeping software.	Audit Software	240	-	240		

Internal Audits

Organization-Wide

Performance Metrics	FY14-515	Review efforts to track and report performance metrics and assess the accuracy and timeliness of reporting.	Operational	180	137	43	In Process	
Business Resumption and Continuity of Operations	FY14-514	Assess whether business resumption/continuity of operations plans provide the framework for an effective response and recovery from any business interruption.	Operational	180	145	35	In Process	

Human Resources and Organizational Development

Flexible Benefits Program Administration	FY13-525	Review of policies, procedures, and controls in place over this employee benefit program.	Internal Control	24	80	(56)	Issued 09-13-13	
Family Medical Leave Act	FY14-502	Review controls in place to ensure compliance with policies, procedures, and regulations related to the Family Medical Leave Act.	Compliance	180	398	(218)	In Process	
Training	FY14-510	Assess the adequacy of operations related to employee training and educational reimbursements and determine compliance with regulations, policies, and procedures.	Operational	180	290	(110)	In Process	

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2013-14 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
Capital Projects								
Metrolink Service Expansion Program	FY11-510	Review of cooperative agreement with Metrolink for infrastructure improvements related to the implementation of 30 minute service.	Compliance	160	302	(142)	Issued 3-4-14	
Tustin Parking Expansion	FY13-527	Review of the Tustin Parking Expansion project, including project administration, oversight controls, and contract compliance.	Internal Control	240	248	(8)	Issued 3-4-14	
West County Connectors: Mitigation Funding	FY14-508	Review and test compliance with cooperative agreements for mitigation funding related to the West County Connectors project.	Operational	180	147	33	Issued 2-24-14	
Planning								
Combined Transportation Funding Program Project Audits	FY14-516	Review selected projects for compliance with Measure M Ordinance, policies, and procedures.	Compliance	180	18	163	In Process	
Transit Operations								
Coach Operator Overtime: Scheduled and Unscheduled	FY14-XXX	Review of selected processes and controls involved in the budgeting and reporting of coach operator overtime, both scheduled and unscheduled.	Operational	240	-	240		
Veolia Contract Closeout	FY14-512	Assess the adequacy and effectiveness of controls employed in the closeout of the Veolia contract for ACCESS services.	Internal Control	180	136	45	In Process	
Finance and Accounting								
Treasury	FY14-501, FY14-513	Semi-annual review of investments compliance, controls, and accounting.	Compliance	200	237	(37)	Issued 09-30-13	
Grant Closeouts	FY13-526	As-needed financial and compliance audits of grants at closeout to ensure propriety of expenditures.	Compliance	40	31	9	Issued 08-15-13	
Commuter Club	FY14-507	Review controls in place to ensure compliance with policies, procedures, and regulations related to this employee program.	Compliance	120	171	(51)	Issued 2-5-14	
Administrative Employee Overtime	FY14-504	Review controls in place to monitor and reduce overtime costs. Assess reasonableness of overtime costs incurred.	Internal Control	120	124	(4)	Issued 10-25-13	
Contract Administration & Materials Management								
Buy America	FY14-503, FY14-505	Pre-award and post-delivery reviews to ensure vendors and the Orange County Transportation Authority (OCTA) are in compliance with federal Buy America requirements.	Compliance	360	286	74	3 Issued	
Price Reviews	PR14-XXX	Cost and price analyses as required by OCTA procurement policies and procedures.	Price Review	1,000	1,185	(185)	23 Complete	
Purchase Order Issuance and Oversight	PR14-509	Review controls, policies, and procedures over Purchase Order/Blanket Purchase Order issuance and oversight.	Internal Controls	180	286	(106)	Issued 3-26-14	

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2013-14 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
External Affairs								
Bus Advertising	FY14-509	Review and assess compliance with revenue-sharing agreements in place for bus advertising.	Operational	160	256	(96)	Issued 10-30-13	
OCTA Store	FY14-511	Review OCTA store operations to ensure adequate controls are in place to safeguard assets.	Operational	180	426	(246)	Issued 06-11-14	
Unscheduled Reviews and Special Requests								
Unscheduled Reviews and Special Requests	FY14-800	Time allowed for unplanned audits and requests from the Board of Directors and management.	Varies	76	13	63		
	FY14-801	Coordinate Federal Emergency Management Agency - Region IX - Financial Monitoring Review -Transit Security Grant Program FY 2009 - FY 2012.	Compliance	20	49	(29)	Issued 10-25-13	
	FY14-802	Coordinate California Office of Emergency Services FY 2009-10 Proposition 1B Transit Grant Award Compliance Review	Compliance	24	5	19	In Process	
	FY14-803	Coordinate State Controller's Office Audit of Highway Railroad Crossing Safety Account - Dana Point and San Clemente Crossing Safety Enhancements, Project Agreement No. 75GS019	Compliance	8	-	8	In Process	
	FY14-804	Conduct Capital Asset inventory observations.	Non-Audit Service	72	64	8	Complete	
Monitoring Activities								
Measure M Taxpayers Oversight Committee	FY14-601	Coordination of audit activities with the Audit Subcommittee of the Measure M Taxpayers Oversight Committee.	Monitoring	160	52	108		
Bus Base Inspections and Inventory Testing	FY14-602	Participation in annual bus base inspections.	Monitoring	32	22	10		
Metrolink Member Agency Allocation	FY14-603	Review of results of Los Angeles County Metropolitan Transportation Authority's annual audit of Metrolink member agency allocation.	Monitoring	24	18	6		
Follow-up Reviews								
Follow-up Reviews and Reporting	FY14-700	Follow-up on audit findings and recommendations.		300	49	252		
Total Audit Project Planned Hours (A)				6,390	6,529	(139)		

Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2013-14 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 Board Committee Meetings				380	153	228		
Executive Steering Committee and Agenda Meetings				160	133	27		
Internal Audit Department Staff Meetings				240	57	184		
Other Administration				1,500	1,523	(23)		
			Total Hours (B)	8,670	8,394	277		
			Department-Wide Target Efficiency (A/B)	74%				
			Department-Wide Actual Efficiency (A/B)		79%			
			Professional Staff Target Efficiency	80%				
			Professional Staff Actual Efficiency		84%			

UNRESOLVED FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through June 30, 2014)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
10/17/2012	12-510	Human Resources and Organizational Development (HROD)	Employment and Compensation Review	Management should develop written procedures for processing compensation and personnel actions.	Sep-14	Management will develop and document procedures by February 2013. <u>Update June 2013</u> : Procedures have not yet been finalized. <u>Update April 2014</u> : The Internal Audit Department (Internal Audit) found that HROD does not always abide by written procedures when processing actions for its own employees. Internal Audit also made three additional recommendations related to competitive recruitments and written procedures.	Tang	Initiate next update September 2014.
10/17/2012	12-510	HROD	Employment and Compensation Review	Evidence of compensation analysis is not on file for all actions and, when it is performed, increases often exceed recommendations without documentation. Management should develop written procedures for processing these actions and for making exceptions.	Sep-14	Effective immediately, exceptions will require documentation. In addition, management will develop and document procedures by February 2013. <u>Update June 2013</u> : Procedures have not yet been finalized. <u>Update April 2014</u> : Testing identified two instances where salary counter-offers exceeded the range recommended by the compensation analyst and no written business justification was provided. as required. Management should monitor to ensure procedures are followed.	Tang	Initiate next update September 2014.
10/17/2012	12-510	HROD	Employment and Compensation Review	Management should amend the Personnel and Salary Resolution (P&SR) to specifically address equity adjustments. Also, written procedures should be developed to govern these actions.	Sep-14	Management will update the P&SR to specifically address equity adjustments and will develop and document procedures by February 2013. <u>Update June 2013</u> : The P&SR approved by the Board of Directors (Board) in June 2013 was updated to address equity adjustments. Internal Audit will return in six months to test compliance. <u>Update April 2014</u> : Only one equity adjustment, for an HROD employee, was processed during the review period and required forms were not on file. Management should monitor to ensure compliance with procedures.	Tang	Initiate next update September 2014.
10/17/2012	12-510	HROD	Employment and Compensation Review	Procedures should be developed to address demotions and/or reclassifications to lower salary grade levels, and Chief Executive Officer (CEO) approval should be obtained as required. In addition, management should develop procedures for "extra help" employees, including how salary rates are set for these positions.	Sep-14	Management will ensure CEO approval is obtained as required. Also, management will define "extra help" employees with the next update to the P&SR and will include guidelines as to their salary rates. <u>Update June 2013</u> : Procedures have not yet been finalized. <u>Update April 2014</u> : Procedures have been developed; however, testing identified instances whereby HROD did not comply with procedures for actions involving their own employees.	Tang	Initiate next update September 2014.

UNRESOLVED FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through June 30, 2014)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
5/22/2013	11-501	F&A and Capital Programs	Limited Review of Oversight Controls and Contract Compliance Related to the Orangethorpe Grade Separation Projects	Internal Audit recommends that an entity-wide invoice review policy and procedures be established.	Aug-14	Management agrees with the recommendation and proposes the following: (1) The Payment Authorization Policy (FA-ACCT-340.09PAYAUTH) will be reissued as a policy of the CEO. (2) A new Contract Invoice Review Policy will be issued by the CEO that delineates responsibility for ensuring that contract invoices are accurately paid in compliance with all applicable contract provisions and disbursed on a timely basis. <u>Update March 2014</u> : Management has developed an organization-wide policy; however, the Capital Programs Division needs to develop its own Invoice Review Policy.	Ng	Initiate next update August 2014.
9/13/2013	13-525	HROD	Flexible Spending Account Program Review	Internal Audit recommends that management implement controls to ensure reconciliation of bi-weekly payroll payments and the annual statement of deposit account	Jul-14	Management has created a report that is updated on a bi-weekly basis that will be used to document the reconciliation process for the payroll payments. Also, management has created a report to document the reconciliation of the annual statement of deposit account.	Tang	
10/10/2013	N/A	Planning	Follow-up to Financial and Compliance Audits of Nine Combined Transportation Funding Program Projects	Internal Audit recommends management revise the Audit and Inspection article of the M2 Master Funding agreements to allow an audit period of five years after the expenditure of Local Fair Share funds.	Oct-14	Management agreed and indicated that this change will be incorporated with other updates planned for June 2014.	Ng	
10/25/2013	N/A	F&A	Federal Emergency Management Agency Financial Monitoring Review	Internal Audit recommends that management improve controls over the implementation, monitoring, and reporting of grant funds and related projects.	Jul-14	Staff is developing a policy and procedures to address each of the issues identified. The policy will formalize roles and responsibilities and will clearly detail the responsible parties for ensuring that project milestones are met, who is responsible for the various reporting requirements, and who will have the final decision on determining whether OCTA will apply for a particular grant and for which projects. The procedures will include a formal review prior to applying for a grant that will help ensure that OCTA only applies for grant funds that are reasonably expected to be complete.	Sutter	
10/31/2013	N/A	F&A	Single Audit Report on Federal Awards, FY13	Auditors identified one significant deficiency related to a failure to report sub-awards granted on or after October 1, 2010, as required by the Federal Funding Accountability and Transparency Act.	Jan-15	Management responded that all required reporting has since been made and that procedures have been updated to ensure all future sub-awards are reported as required.	Tang	

UNRESOLVED FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through June 30, 2014)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
1/22/2014	N/A	F&A	Supplemental Recommendation Related to the Federal Emergency Management Agency, Region IX Grants Management Review	Internal Audit recommends management improve controls over the implementation, monitoring, and reporting of grant funds and related projects. Procedures for project selection, project management, monitoring, and reporting should be formalized with roles and responsibilities clearly defined. Further, staff should apply for grant funds for only those projects that they can reasonably expect to complete.	Jul-14	Staff is developing an authority-wide policy and accompanying set of procedures for the entire grants process that will address each of the issues identified in the Internal Audit recommendation. The policy will formalize roles and responsibilities and will include a formal review prior to applying for a grant that will help ensure that OCTA only applies for grant funds that is reasonably expected to be complete.	Sutter	
2/5/2014	14-507	F&A	Review of Employee Commuter Club Program	Internal Audit recommends management adjust employee accounts for identified errors and develop and implement monitoring controls to help identify errors or irregularities in the future.	Aug-14	Management indicated that appropriate adjustments will be made and staff will look to modify the current system, build an in-house system, or purchase a new system that will include appropriate monitoring controls and reporting. <u>Update February 2014</u> : Management has updated policies and procedures. Internal Audit will test for compliance in six months.	Tang	
3/4/2014	11-510	F&A	Review of Oversight Controls and Contract Compliance Related to the Metrolink Service Expansion Program	Internal Audit recommends that the appropriate overhead rate be used when establishing contract rates; agreements should include a limit on escalation; procedures for the use of rate ranges be formalized; consultant staff be added to agreements prior to performing work; and only invoices that reflect rates effective at the time work was performed should be authorized.	Sep-14	Management indicated that procedures will be updated to address issues related to establishing overhead rates, the use of labor rate ranges, and escalation.	Bonelli	
3/4/2014	11-510	F&A	Review of Oversight Controls and Contract Compliance Related to the Metrolink Service Expansion Program	Internal Audit recommends that project management require evidence of work performed when authorizing after-hours work where there are few deliverables. Also, management should question costs that are not part of the agreement as well as costs that appear higher than reasonable.	Sep-14	Management agrees and currently requires daily reports, field logs, or other supporting documentation for after-hours work. Management agrees that costs should be reviewed for reasonableness. The consultant, Hatch Mott McDonald, has reimbursed OCTA \$990.87 for the charges that should not have been reimbursed.	Bonelli	
3/4/2014	13-527	Capital Programs	Review of Oversight Controls and Contract Compliance Related to the Tustin Metrolink Station Parking Expansion	Internal Audit recommends that independent cost estimates for construction change orders be prepared prior to receipt of contractor's quotes and prior to performance of work.	Sep-14	Management agrees and will update the Construction Management Procedures Manual to integrate specific guidance.	Ng	

UNRESOLVED FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through June 30, 2014)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
3/4/2014	13-527	Capital Programs	Review of Oversight Controls and Contract Compliance Related to the Tustin Metrolink Station Parking Expansion	Internal Audit recommends that project management monitor the expiration dates of contracts and extend contract terms prior to contract expiration.	Sep-14	Management agrees and will issue a memorandum to project managers reminding them to monitor consultant support contract expiration dates to assure the term of the construction contract and construction closeout effort is accounted for.	Ng	
3/4/2014	13-527	Capital Programs	Review of Oversight Controls and Contract Compliance Related to the Tustin Metrolink Station Parking Expansion	Internal Audit recommends that the Rail Programs Department develop written project management procedures tailored to the types of projects handled in the department.	Sep-14	The Highway Programs Department maintains a Program Management Procedures manual which serves as a set of procedures to effectively manage and monitor projects and develop strategies for delivering the entire capital improvement program. This manual will be appended to integrate any specific guidance needed for projects managed by the Rail Programs Department.	Ng	
3/26/2014	14-509	Maintenance/ General Services	Review of Purchase Order (PO) Issuance and Oversight	Internal Audit recommends that Maintenance and General Services review invoices for compliance with PO terms. For the PO's that include multiple parts/goods, the PO's should require that items not identified in the PO pricing summary be billed at cost plus a set mark-up percent. The PO's should also consistently include a requirement that OCTA be provided with adequate supporting cost documentation to allow validation of mark-ups as-needed.	Sep-14	Maintenance will more closely track the remaining balances of each PO and will take appropriate action to avoid encumbering invoices in excess of the PO. All future procurements will include a more complete list of goods to be ordered during the term of the PO, provide an option to purchase unlisted items at cost plus markup, and require that proof of cost be provided with the invoice to be paid. General Services will add language to PO's to cover items that were not included in the original scope of work.	Ng	
3/26/2014	14-509	CAMM	Review of PO Issuance and Oversight	Internal Audit recommends that the Procurement Policies and Procedures Manual be updated to address sole source PO's exceeding \$50,000 that do not require price review by Internal Audit and develop and document procedures for services marketed by brokers.	Sep-14	Management agrees to develop procedures that address sole source POs that do not require a price review by Internal Audit. Management also agrees to develop and document procedures for services that are marketed by brokers, such as property insurance policies and health insurance policies.	Ng	
4/14/2014	14-513	F&A	Investments: Compliance, Controls, and Accounting July 1 through December 31, 2013	Internal Audit recommends that management update the OCTA Investment Policy to address situations where an investment manager's non-compliance is not treated as a violation. Instances should be documented.	Oct-14	Management will update OCTA's Investment Policy to include additional language regarding the drawdown of portfolio funds and the determination of compliance issues.	Tang	

UNRESOLVED FINDINGS AND RECOMMENDATIONS

(Audit Reports Issued Through June 30, 2014)

Audit Issue Date	Report Number	Division / Department / Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
5/29/2014	14-511	F&A	Review of the Orange County Transportation Authority Store	Internal Audit recommends management ensure that the new system is designed to provide appropriate segregation of duties and that access is limited as appropriate. Detailed records of the access levels should be maintained and periodically reviewed for appropriateness. Procedures should be developed to address system access assignments and related controls to prevent and/or detect suspicious transactions.	Nov-14	The replacement point of sale system is expected to be fully implemented by the end of the calendar year. The new system will resolve access controls by providing multiple layers of administration functions allowing management the ability to turn on, or turn off posting abilities to match the levels of access required by staff. Procedures will be developed to outline access assignments and secondary reviews and approval, where appropriate. Records of access levels will be maintained and periodically reviewed by management.	Dunning	
5/29/2014	14-511	F&A	Review of the Orange County Transportation Authority Store	Internal Audit recommends that management change the alarm code, locks, combinations to areas used to store cash and inventory and maintain records of the employee assignments. Authorized employees should be individually assigned keys and combinations to their cash and inventory. Spare keys should be maintained under dual control and temporary assignments should be recorded. Staff should be advised of their responsibility to maintain individual control over their assigned keys.	Nov-14	The alarm code and all locks and combinations to cash and inventory storage areas have been changed and appropriate access assignments made. Spare keys are now held in an area requiring dual access and records of all key, combination and alarm assignments have been prepared and will be maintained. In the future, alarm, key and combination changes will be made upon employee termination and in accordance with procedures. Finally, employees have been reminded of the importance of maintaining sensitive keys under their possession.	Dunning	
5/29/2014	14-511	F&A	Review of the Orange County Transportation Authority Store	Internal Audit recommends that procedures be updated to include surprise counts of cash and inventory items to verify the accuracy of balancing records and the perpetual inventory system.	Nov-14	Procedures for inventory controls have been updated to require quarterly inventory counts. Procedures have also been developed to include implementation of cash counts occurring on a surprise basis no less than once monthly.	Dunning	