



**January 24, 2024**

**To:** Finance and Administration Committee

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

Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Fiscal Year 2023-24 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 2023-24 Internal Audit Plan on July 24, 2023. This report provides an update on activities for the second quarter of the fiscal year.

### **Recommendation**

Receive and file the second quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2023-24 Internal Audit Plan as an information item.

### **Background**

The Internal Audit Department (Internal Audit) serves as 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. In addition, audits initiated by entities outside of OCTA are coordinated through Internal Audit.

### **Discussion**

The OCTA Internal Audit Department (Internal Audit) Fiscal Year (FY) 2023-24 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project.

During the second quarter of the FY, Internal Audit presented the results of an audit of OCTA Store operations. Based on the audit, controls over OCTA Store operations are adequate and operating. Internal Audit noted that management has implemented procedures that ensure proper safeguarding of cash, transponders, and pass fare media and exercises appropriate security over the premises.

In addition, an audit of cooperative agreements between OCTA and the Regional Center of Orange County (RCOC) and My Day Counts (MDC) was issued. The audit concluded that contract, oversight, and monitoring controls should be improved. Recommendations were made to reconsider or strengthen the pass-through trip arrangement with MDC, to implement procedures to reconcile and resolve trips disputed by RCOC, and to improve the timeliness of invoice and collection processing, as well as recording and monitoring of receivable amounts. Management agreed to implement the recommendations. This audit was presented to the Finance and Administration Committee and the Board of Directors (Board) on November 29, 2023 and December 11, 2023, respectively.

An audit of Transit Police Services was also completed and concluded that the Orange County Sheriff-Coroner Department provides transit security and protection services in accordance with the contract; however, recommendations were made to comply with contract requirements for preparation of an annual work plan and special service requests, to track all costs of transit security and evaluate allocation of such costs for appropriateness, and to improve the grant reimbursement process to ensure all eligible costs are identified and reimbursed. Management agreed to implement the recommendations. This audit was presented to the Finance and Administration Committee and the Board on January 10, 2023 and January 22, 2023, respectively.

Internal Audit also issued results of an investigation and limited scope review of a scope change to a Comprehensive Transportation Funding Programs (CTFP) Project V award to the City of Huntington Beach (City). The investigation and limited scope review resulted from an anonymous complaint received through the OCTA Fraud Hotline. While the review did not find evidence of fraud, defined as any activity that relies on deception to achieve gain, Internal Audit identified a lack of reference, or criteria, for Project V scope changes in CTFP guidelines and confirmed that facts related to the scope change were misrepresented in the request for Board approval. Internal Audit also confirmed that the scope change will allow the City to apply for funding as an existing Project V-funded project, a category given the highest priority in the 2024 call for projects. Recommendations were made to update CTFP guidelines to include guidance as to acceptable scope and/or programming changes, to conduct and document evaluation of scope changes against criteria, and to ensure accurate and complete communications to the Board. Management agreed to consider

changes to CTFP guidelines and to implement procedures to address evaluation, documentation, and communication of scope changes moving forward. Additionally, management presented a detailed overview of the scope change request and obtained reaffirmation of Board approval for the change. These items were presented to the Board on December 11, 2023.

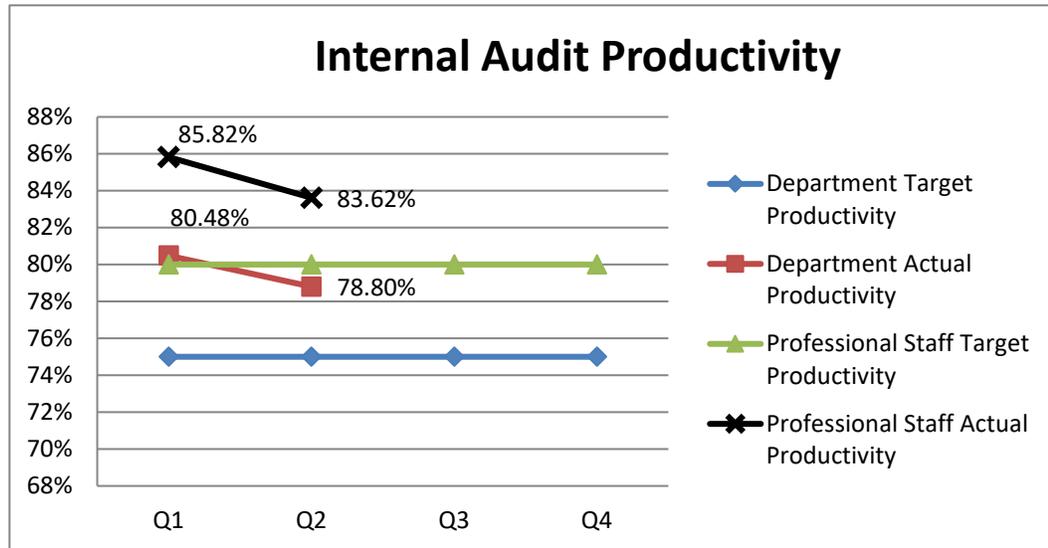
Finally, results of the 2023 Federal Transit Administration's triennial review of OCTA were provided to the Board in November 2023. The purpose of the review is to evaluate compliance with grant requirements and management practices as they relate to the use of federal funds. No deficiencies were found in any of the 23 areas reviewed.

The primary focus of Internal Audit as of December 31, 2023, and in the ensuing months, will be to provide coordination of the Measure M2 limited compliance audit and agreed-upon procedures reviews conducted by OCTA's independent auditor, Crowe LLP.

#### Internal Audit Productivity

Internal Audit measures the productivity of the department by calculating a productivity ratio. The ratio, used broadly throughout the audit industry, measures the amount of time auditors spend on audit projects versus time spent on administrative duties. Productivity goals are established for both the professional staff and for the department as a whole. Because the executive director regularly participates in non-audit management activities such as planning and committee meetings, the department-wide target is set at 75 percent. The target for internal audit professional staff, not including the executive director, is 80 percent.

For the second quarter ended December 31, 2023, Internal Audit achieved cumulative productivity of 79 percent, and professional staff productivity of 84 percent.



**Price Reviews**

At the request of the Contracts Administration and Materials Management (CAMM) Department, 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. During the second quarter, Internal Audit issued results of five price reviews.

**Fraud Hotline**

During the quarter ended December 31, 2023, Internal Audit received four reports through OCTA’s Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com). One complaint lacked sufficient information to perform follow-up; the reporter was contacted but never responded. Two other reports were referred to customer service for follow-up. The fourth report was investigated and results reported to the Board in November 2023. As part of the administration of the hotline, Internal Audit maintains documentation of each complaint and its disposition.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended December 31, 2023, Internal Audit made initial contact within two business days.

### Findings and Recommendations Tracking

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

During the quarter ended December 31, 2023, Internal Audit completed follow-up reviews of seven outstanding audit recommendations and closed six. Follow-up reviews of seven other recommendations are in process at quarter end. One recommendation relating to the audit of lost and found operations had not been fully implemented and will be reviewed again in six months. Nine recommendations were added to the listing resulting from reports issued during the second quarter, as summarized above.

### **Summary**

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

### **Attachments**

- A. Orange County Transportation Authority Internal Audit Department Fiscal Year 2023-24 Internal Audit Plan, Second Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through December 31, 2023
- C. Audit Recommendations Closed During Second Quarter, Fiscal Year 2023-24

**Approved by:**



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

**Orange County Transportation Authority  
Internal Audit Department  
Fiscal Year 2023-24 Internal Audit Plan  
Second Quarter Update**

**ATTACHMENT A**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
<b>Mandatory External Independent Audits</b>							
Annual Financial Audits and Agreed-Upon Procedures (AUP) Reviews	FY24-001 through FY24-004	Develop and issue a request for proposals and scope of work for an independent audit firm to conduct audits of the Orange County Transportation Authority (OCTA) and related entities. Coordinate and report on annual financial and AUP reviews for fiscal year (FY) 2022-23.	Financial	470	194	277	
External Regulatory Audits	FY24-005	Coordinate and report on external audits by regulatory or funding agencies.	Compliance	40	7	33	
<b>Internal Audit Department Projects</b>							
Risk Assessment and Annual Audit Plan	FY24-100	Preparation of the annual audit plan, quarterly updates to the audit plan, and periodic assessment of risk throughout the year, including monitoring the audit results of related entities.	Audit Plan and Updates	180	57	123	
Quality Assurance and Self-Assessment	FY24-101	Update of Internal Audit Policies & Procedures. Annual self-assessment of the Internal Audit Department's (Internal Audit) compliance with Generally Accepted Government Auditing Standards.	Quality Assurance	180		180	
Fraud Hotline Activities	FY24-102	Administrative duties related to maintenance of the OCTA Fraud Hotline and work related to investigations of reports of fraud, waste, or abuse.	Fraud Hotline	120	126	(6)	6 Reports Received
Automated Workpaper Solution	FY24-103	System updates/training related to automated workpaper solution.	Workpaper System	40	2	38	
<b>Internal Audits</b>							
<b>Express Lanes Program</b>							
Operations and Management	FY24-508	Assess and test selected oversight, contract compliance, and/or invoice review controls related to the provision of services by Cofiroute USA, LLP.	Operational/ Compliance	340	76	264	In Process
<b>Security and Emergency Preparedness</b>							
Transit Police Services	FY24-503	Assess and test selected oversight, contract compliance, performance reporting, and/or invoice review controls related to the agreement for provision of Transit Police Services.	Operational/ Compliance	280	297	(17)	Complete 12-5-23

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<b>People and Community Engagement</b>							
Life Insurance Benefits	FY23-505	Assess and test policies, procedures, and controls over administration of employee life insurance benefits.	Operational	26	12	14	Complete 8-7-23
Bus Advertising Revenue	FY23-516	Assess and test oversight and contract compliance controls related to the agreement for bus advertising.	Operational/ Compliance	120	149	(29)	Complete 8-31-23
Liability Claims Management	FY24-5XX	Assess and test controls related to administration and management of liability claims.	Operational	320		320	
Flexible Spending Accounts	FY24-XXX	Assess and test controls over the administration of employee flexible spending accounts.	Internal Control/ Compliance	200		200	
College Pass Program	FY24-506	Assess and test oversight, compliance, and performance of the College Pass Program.	Operational	220	242	(22)	In Process
<b>Capital Programs</b>							
Anaheim Canyon Station Improvements	FY23-515	Assess and test oversight controls, contract compliance, and invoice review controls related to the Anaheim Canyon Station Improvements Project.	Internal Control/ Compliance	80	93	(13)	Complete 8-31-23
OC 405 Partners	FY24-507	Assess and test oversight controls, contract compliance, and invoice review controls related to the OC 405 design-build project.	Internal Control/ Compliance	360	176	184	In Process
<b>Operations</b>							
OC ACCESS Service	FY24-XXX	Assess adequacy of oversight controls and test oversight, contract compliance, and invoice review controls related to the agreement with First Transit/TransDev for OC ACCESS transportation services.	Operational/ Compliance	320		320	
Regional Center of Orange County	FY24-502	Assess and test controls related to administration and operation of the agreements with Regional Center of Orange County and My Day Counts relating to transportation services.	Internal Control/ Operational	280	274	6	Complete 11-14-23
Vanpool	FY24-505	Assess and test controls and compliance related to the administration of the vanpool program.	Operational/ Compliance	180	201.5	(22)	In Process

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<b>Finance and Administration</b>							
Treasury	FY24-501	Semi-annual review of investments: compliance, controls, and reporting.	Compliance	250	204	46	1 Report Issued 9-11-23
Accounts Payable	FY23-504	Assess and test controls over accounts payable operations.	Operational	320	508	(188)	In Process
Revenue Agreements	FY24-5XX	Assess and test controls over identification, tracking, and reporting of external revenue agreements.	Operational	280		280	
Cybersecurity	FY23-509	Design a scope of work and procure an audit consultant to evaluate OCTA's Cybersecurity program.	Internal Control/Operational	8		8	Complete 5-31-23
OCTA Store Operations	FY24-504	Assess and test OCTA store operations to ensure adequate controls are in place to safeguard assets.	Internal Control/Operational	280	164	116	Complete 10-26-23
Price Reviews	PR24-5XX	As requested by the Contracts Administration and Materials Management (CAMM) Department, apply AUP to sole source, single bid, and architectural and engineering firm proposals.	Price Review	800	355	446	10 Reports Issued
Buy America	FY24-5XX	As requested by the CAMM Department, apply AUP to determine compliance with Buy America requirements.	Buy America	300		300	
<b>Unscheduled Reviews and Special Requests</b>							
Unscheduled Reviews and Special Requests	FY24-800	Time allowed for unplanned audits and requests from the Board of Directors (Board) or management.	Varies	200		200	

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Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
<b>Monitoring Activities</b>							
Measure M2 Taxpayer Oversight Committee (TOC)	FY24-601	Coordination of audit activities on behalf of the Audit Subcommittee of the TOC.	Administrative Support	60	64	(4)	
Metrolink Audit Activities	FY24-602	Review/monitor audit results of Metrolink activities. Participate in selection of independent auditing firm.	Non-Audit Service	10	18	(8)	
Bus Base Inspections	FY24-603	At the request of the Operations Division, participate in annual base inspections.	Non-Audit Service	80	43	37	Complete
Capital Asset Inventory Observation	FY24-604	At the request of the Finance and Administration Department, observe and apply limited procedures related to the bi-annual capital asset inventory counts.	Non-Audit Service	60		60	
<b>Follow-Up Reviews</b>							
Follow-Up Reviews and Reporting	FY24-700	Follow-up on the status of management's implementation of audit recommendations.	Follow-Up	280	244	37	
<b>Total Audit Project Planned Hours (A)</b>				<b>6,684</b>	<b>3,505</b>	<b>3,180</b>	

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Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
<b>Internal Audit Administration</b>							
Board and Committee Meetings				180	69		
Executive Steering and Agenda Setting Meetings				170	54		
Internal Audit Staff Meetings				150	57		
Other Administration				1,500	764		
<b>Total Hours (B)</b>				<b>8,684</b>	<b>4,448</b>		
<b>Department Target Efficiency (A/B)</b>				75%	79%		
<b>Target Efficiency - Professional Staff</b>				80%	84%		

**Contingency: Internal Audit**

Project Controls	FY24-5XX	Assess the adequacy and effectiveness of internal controls over payment processing and project oversight exercised by the Project Controls section of Capital Programs.
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**Outstanding Audit Recommendations  
Audit Reports Issued Through  
December 31, 2023**

<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>Internal Audit Status</b>
1/26/22	21-511	Executive Office	Physical Access Security	The Internal Audit Department (Internal Audit) recommends the Security and Emergency Preparedness (SEP) Department management develop, maintain, and test a comprehensive, appropriate, and up-to-date set of physical security plans, policies, and procedures. A written Access Control Policy and related procedures should be developed and published, and management should address requirements included in the Physical Security Policy for implementing gate controls at all facilities. Finally, management should implement a regular training program to inform employees as to security policies, procedures, and protocols.	Jan-24	Management will work to document all processes and review assigned policies. SEP will make updates to the Physical Security Policy to address gate controls and create a Physical Access Control Policy. These updates will be completed by June 30, 2022. A "Record of Changes" section has been added to security plans to document reviews and updates. Management has hired a consultant to review the Orange County Transportation Authority's (OCTA) policies, procedures, and security plans. The consultant will provide recommendations on program improvements, conduct a new Threat and Vulnerability Assessment, provide a new written security plan, and create a security training program to include curriculums for all employees. Management will implement a training program within 12 months.	<u>Update August 2022:</u> Updates to security plans, policies, and procedures have not yet been prepared and are expected to be completed between August and December 2022. <u>Update March 2023:</u> Certain policy updates are in process. Development of an updated Master Security Plan has been delayed and is now expected to be complete by the end of 2023. <u>Update September 2023:</u> Significant progress has been made; however, development of a Master Security Plan and a physical security training program are not yet complete. The contractor has experienced delays in producing these deliverables.
1/26/22	21-511	Executive Office	Physical Access Security	Internal Audit recommends management develop and implement written policies, procedures, and protocols that address the timely issuance, termination, and use of badges. These procedures should be referenced in contracts with Contracted Transportation Services (CTS) providers and be communicated to OCTA staff. Management should also ensure secondary controls are operating as intended.	Jan-24	Management is reviewing the issuance and termination of access badges in order to document processes. Management will work with other departments, including CTS, to advise of procedures for issuing and terminating access badges and encourage those departments to include procedures in their contracts, as appropriate. Additionally, management is currently reviewing and documenting procedures to ensure secondary controls are being utilized. Review and updating of procedures will conclude with the creation of a new Physical Access Policy to be completed by June 30, 2022.	<u>Update August 2022:</u> Management has not yet developed policies, procedures, and protocols to address timely issuance, termination, and use of access badges coordinated through OCTA. Management indicated that, while an Access Control Policy was originally expected to be completed by June 30, 2022, it has taken longer than expected due to the need to update the Physical Security Policy first. <u>Update March 2023:</u> Management expects an updated Access Control Policy to be completed soon, and updates to agreements with CTS providers are in process. <u>September 2023:</u> Significant progress has been made; however, monitoring controls outlined in the newly-developed Access Control System Policy have not yet been implemented.

**Outstanding Audit Recommendations  
Audit Reports Issued Through  
December 31, 2023**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
2/9/22	21-507	Operations Division (Operations)	Facilities Maintenance (FM) Operations	Internal Audit recommends management implement a perpetual inventory system to track purchasing activity and maintain inventory of all parts and supplies. Purchasing, storage, issuance, and disposal activities should be centralized and include controls to ensure proper authorization for purchases, physical security of inventory items, and proper assignment of costs to work orders.	Feb-24	FM contracts for parts and supplies will be transferred to the Contracts Administration and Materials Management (CAMM) Department by July 2022. By February 2023, FM parts and supplies stored outside of CAMM's control will be brought into the inventory system for proper storage and issuance. The current Enterprise Asset Management (EAM) system is not capable of assigning all costs to FM work orders; however, a new EAM system is being implemented and should be capable of properly assigning costs to work orders. The new EAM system is estimated to be fully implemented in mid-2023.	<u>Update September 2022:</u> Management has completed transferring contracts to CAMM and a process to bring FM parts inventory into CAMM for proper storage and issuance has been established and is on track to be completed by February 2023. As stated in the original response, the current asset management system is not capable of assigning all costs to work orders. A new system will be implemented in mid-2023. <u>Update March 2023:</u> Management is still in the process of implementing a centralized inventory system and expects that physical transfer of all inventory may take up to two years. <u>Updated August 2023:</u> Management is still in the process of transferring parts inventory to centralized CAMM control.
2/9/22	21-507	Operations and Finance and Administration (F&A) Division	FM Operations	Management should enhance its invoice review process to ensure compliance with OCTA's Vendor Payment Policy and contract payment terms. Vendor mark-ups should be discontinued from time-and-expense contracts. For contracts related to the purchase of parts and materials only, any items not listed on the price summary sheet should include supporting cost documentation. If mark-ups are to be allowed on parts-and-materials contracts, the proposed mark-ups should be incorporated into the evaluation of costs during the vendor selection process.	Feb-24	Management will immediately begin working on enhancing the current invoice cover page to include a checklist that will require acknowledgement of review for sufficient detail as to quantity and rates of costs and justification. To address the issue of providing sufficient detail and complying with contract terms, the checklist being developed will improve oversight. In terms of discontinuing vendor mark-ups in time-and-expense contracts, management will work with CAMM to develop a solution that will address the issue of vendor mark-ups as well as incorporating an evaluation of cost, if mark-ups are allowed, during the vendor selection process.	<u>Update September 2022:</u> Management has enhanced the invoice checklist to include review for sufficient detail as to quantity and rates. CAMM has implemented an evaluation methodology to assign a percentage of the cost score for items not listed on the price summary sheet. Management and CAMM continue to explore options including discounts from price sheets and using fair market values to justify and validate price mark-ups. <u>Update March 2023:</u> FM has enhanced its invoice review; however, CAMM staff needs to enhance its review of invoices for contracts that have been transferred to their control. <u>Update August 2023:</u> CAMM staff has implemented an invoice review checklist; however, Internal Audit identified some invoice payments that do not comply with contract terms and some vendors that do not have published list prices, required in order to validate discounts.

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1/10/23	23-503	People and Community Engagement (PACE)	Administrative Employee Mandatory Training and Employee Educational Reimbursements	Management should implement monitoring controls to ensure all administrative employees obtain mandatory training within required timeframes. Management should also ensure mandatory annual training is obtained and employee merit increases are withheld for non-compliance, as required by policy.	Jan-24	Management will implement monitoring controls to ensure all new administrative employees obtain mandatory training within required timeframes. Management will also implement monitoring controls to ensure mandatory annual training is completed by all administrative employees prior to merit increases and will meet with Human Resources Department staff to implement a process by March 31, 2023.	<u>Update July 2023:</u> Management has begun generating weekly reports of all new hires that have not completed new-hire training within the required timeframes; however, responsibility for follow-up of these reports has not yet been established.
2/28/23	23-501	PACE	Workers' Compensation Program	Management should enhance monthly reviews of Intercare's check payments to include review of temporary benefit calculations and settlement calculations with supporting documentation. Management should also review paper transactions and reconcile Intercare's listing of checks sent to OCTA to what has been received and deposited. Checks received by OCTA should be deposited in a timely manner. Finally, management should request Intercare provide a detailed invoice from Express Scripts to support payments.	Feb-24	Management will enhance monthly reviews as recommended and will reconcile the listing of checks sent to what has been received and deposited. Management will also request that Intercare Holdings Insurance Services, Inc. provide detailed information for Express Scripts payments.	<u>Update September 2023:</u> OCTA staff has begun reviewing temporary benefit calculations and settlement calculations with supporting documentation, paper transactions added to the check replenishment, and detailed information to support payments to the pharmacy provider; however, staff has not yet requested Intercare to submit listings of checks sent to OCTA, which should be reconciled to what OCTA has received and deposited.
5/8/23	23-508	Planning Division (Planning)	Measure M2 Comprehensive Transportation Funding Programs (CTFP) Project Audits	Management should enforce timely use of funds requirements or obtain Board of Directors' (Board) approval for exceptions to CTFP guidelines.	Nov-23	Management will consider either clarifying guidelines or seeking Board action on a case-by-case basis.	In process.
5/8/23	23-508	Planning	Measure M2 CTFP Project Audits	Management should perform follow-up with the County of Orange and the cities of Costa Mesa, Laguna Beach, and San Clemente on actions taken to address recommendations, including repayment of overcharges and duplicate charges by the City of Laguna Beach.	Nov-23	Direction to management provided in staff report. Management written response not required.	In process.

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6/5/23	23-513	F&A	Lost and Found Operations	Management should enhance controls to ensure found cash and checks/money orders received are properly recorded and reconciled to deposits and general ledger entries.	Jun-24	Management will enhance controls of found cash and checks/money orders received for auctioned items and will do so by improving tracking procedures through the internal database application. Management will also ensure staff works in collaboration with the Accounting and Financial Reporting Department to ensure accurate recording and reconciliation of deposits to the general ledger.	<u>Update December 2023:</u> Management has updated its internal database application to include an auction funds section and has enhanced tracking procedures; however, evidence of deposit to the general ledger was not on file for all deposits since implementation of the verification procedures.
5/31/23	22-513	F&A	OCTA's Cybersecurity Program	Management should adopt and implement a policy that governs asset management and associated activities.	Nov-23	Management agreed to develop and implement a policy.	In process.
5/31/23	22-514	F&A	OCTA's Cybersecurity Program	Management should implement a comprehensive vulnerability management program that includes identifying, assessing, prioritizing, remediating, and/or documenting vulnerabilities as "accepted risks" in a timely manner.	Nov-23	Management agreed and indicated that the current Vulnerability Policy will be enhanced and all issues will be remediated or documented as "accepted risks" in a timely manner going forward.	In process.
5/31/23	22-515	F&A	OCTA's Cybersecurity Program	Management should update OCTA's Business Impact Analysis with direct input from the Cybersecurity Office and use results to inform the development, implementation, and maintenance of an updated Continuity of Operations Plan (COOP) and Disaster Recovery Plan (DRP), and test the DRP annually.	Nov-23	Management responded they are currently working with the SEP Department to review and update the COOP. Management plans to create playbooks to further improve the business continuity and disaster recovery processes to ensure business requirements are met.	In process.
5/31/23	22-514	F&A	OCTA's Cybersecurity Program	Management should strengthen the data protection and privacy program by adopting a comprehensive policy, designating an individual to define and communicate data and privacy requirements, and perform user access reviews at least every 90 days for all internal employees and third party contractors that have OCTA user accounts and/or access to internal resources.	Nov-23	Management committed to implementing a comprehensive data protection and privacy program for all protected data and to designate the cybersecurity manager as the individual responsible to define and communicate data and privacy requirements. In addition, management agreed to implement user access reviews at least every 90 days.	In process.

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5/31/23	22-514	F&A	OCTA's Cybersecurity Program	Management should strengthen third-party security management by requiring third-party consultants working with OCTA data to be subject to the same training as OCTA employees and be required to acknowledge OCTA information technology and cybersecurity policies. In addition access reviews of these third-party consultants should be conducted.	Nov-23	Management agreed and proposed additional security queries of vendors on a periodic basis, as well as development and implementation of a process to ensure all consultants working with OCTA data receive cybersecurity training and follow the same policy requirements as OCTA employees.	In process.
8/7/23	23-505	PACE	Life Insurance Benefits	Management should amend the Personnel and Salary Resolution (PSR) to accurately outline and/or reference age-related benefit reductions and should consult legal counsel about a resolution to the Coach Operator Collective Bargaining Agreement (CBA) language that does not disclose age-related deductions or benefits provided to spouse/domestic partner and children. Management should also consult legal counsel to determine if undisclosed reductions to benefits paid should be corrected.	Feb-24	Management indicated that a reference to the employee Benefits Guide, which outlines age-related reductions, will be included in the Fiscal Year 2024-2025 PSR. Management agreed to include a section on the age-related reductions applicable to Coach Operator Assault and Robbery Insurance, in the 2023 Coach Operator Benefits Guide. Management stated that legal counsel has advised that age-related benefit reductions disclosed in the Coach Operator Benefits Guide represent sufficient disclosure.	
8/7/23	23-505	PACE	Life Insurance Benefits	Management should develop procedures to ensure that benefit entries into the payroll system are reviewed for accuracy and the monthly invoice process be enhanced to include reconciliation of premiums collected versus premiums paid.	Feb-24	Management agreed to enhance procedures to include the review of benefit entries and reconciliation of premiums collected versus premiums paid and investigate variances.	
8/7/23	23-505	PACE	Life Insurance Benefits	Management should implement procedures to ensure accuracy, completeness, and timely submission of claim forms, and monitor timeliness of claim payments. Management should also consider further efforts to determine whether interest applied to proceeds complies with California law.	Feb-24	Management stated they would request claim payment confirmations and track submission of claim forms regularly and will continue to request documentation for interest applied to proceeds in compliance with California law.	

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December 31, 2023**

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8/7/23	23-505	PACE	Life Insurance Benefits	Management should implement controls to properly coordinate the timing of annual premium updates and calculation and processing of invoices to ensure accuracy. Additionally, management should reconcile the employee payroll deductions for supplemental life insurance with the payroll system data detailing premiums paid to VOYA and investigate any variances	Feb-24	Management indicated they would implement controls for timely annual premium updates and reconcile payroll deductions to premiums paid.	
8/31/23	23-516	PACE	Bus Advertising Revenue Program	Management should implement controls to verify accurate and complete reporting of revenues, enforce reporting requirements, monitor free advertisements, and require the contractor to certify statements and the project manager to document reviews.	Feb-24	Management agreed to implement oversight procedures effective December 1, 2023.	
8/31/23	23-515	F&A	Oversight Controls and Contract Compliance Related to the Anaheim Canyon Metrolink Station Project	Management should enhance controls to ensure all procurements exceeding the stated thresholds are presented as regular calendar items, as required.	Feb-24	CAMM will send a communication to all executive directors to reiterate the policy and will submit information to the Chief Financial Officer ahead of weekly agenda setting meetings to identify items that should be placed on the regular calendar based on their value.	
8/31/23	23-515	Capital Programs and F&A	Oversight Controls and Contract Compliance Related to the Anaheim Canyon Metrolink Station Project	Extra work should not be authorized until a Change Directive (CD) has been issued to the construction contractor. Management should also ensure all documentation to validate pricing is included in Contract Change Order (CCO) back-up files. Management should also ensure contract files include final amendment proposals and support for Other Direct Costs (ODC). Labor rates of sole proprietors should be validated and amendment proposals for fixed price contracts should include employee names rather than labor categories.	Feb-24	Management will remind the construction management teams that extra work shall not begin until a CD has been documented and issued to the contractor. Also, project staff will review construction CCOs to ensure backups include all relevant documentation to validate pricing. CAMM will develop procedures to validate rates of sole proprietors and will conduct training on the process. CAMM will ensure final, signed cost proposals are on file and, for fixed price contracts, will encourage consultants to identify named personnel.	

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8/31/23	23-515	F&A	Oversight Controls and Contract Compliance Related to the Anaheim Canyon Metrolink Station Project	Management should not authorize work until contract authority has been obtained. Management should consistently obtain payroll registers for all staff billed under labor classifications and should obtain cost support for any ODC billed but not listed in the contract. Management should also require construction managers (CM) to prepare quantity sheets to support billed CCO items.	Feb-24	Management will remind project and CM teams to ensure that vendors do not submit invoices for work not yet authorized, and that all documentation requirements for payment are met. Should a deviation be required, pre-approval from the OCTA project manager and CMM contract manager will be documented and included in the invoice or payment application before being processed.	
9/11/23	24-501	F&A	Investments: Compliance, Controls and Reporting, January 1, 2023 through June 30, 2023	The Treasury Department (Treasury) should prepare daily cash forecasts on a timely basis and the Treasury manager should perform all steps on the checklist prior to presenting investment reports to the F&A Committee. All forecasts, checklists, worksheets, and reports that require manager review should include a date stamp, such as the Foxit software approval stamp, to evidence timely review.	Mar-24	Management agreed to complete and electronically date stamp daily cash reports and ensure that checklists are signed and electronically date stamped to evidence timely review.	
9/11/23	24-501	F&A	Investments: Compliance, Controls and Reporting, January 1, 2023 through June 30, 2023	Treasury should provide monthly investment reports to the F&A Committee within 45 days of quarterly month end, consistent with the benchmark outlined in the government code for quarterly reports.	Mar-24	Management agreed to target taking the final monthly report of each quarter to the F&A Committee within 45 days of the end of the quarter.	
11/14/23	24-502	Operations and F&A	Cooperative Agreements with Regional Center of Orange County (RCOC) and My Day Counts (MDC)	Management should implement procedures to investigate and take action to address RCOC disputed trips and ensure timely submission and receipt of payments and related credit memos. Accounts Receivable (AR) staff should communicate with RCOC to obtain sufficient information to ensure payments are accurately recorded, remaining errors are corrected, and input a due date on invoices. AR staff should also establish a process to monitor and collect overdue balances.	May-24	RCOC billing procedures have been improved and disputed trips are now investigated and reconciled. The new process includes a tracking log to ensure timely submission of invoice requests. The new process should eliminate the need for credit memos. AR staff will communicate directly with RCOC to correct remaining errors and ensure due dates are included on all future invoices. Staff has also established a process for monitoring overdue balances and notifying project managers accordingly.	

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11/14/23	24-502	Operations	Cooperative Agreements with RCOC and MDC	Management should reconsider the current arrangement with MDC and, if continued, should amend contracts with RCOC and MDC to obligate RCOC to pay OCTA for pass-through amounts and to ensure disputed amounts are charged to MDC. Evaluation of per-trip subsidy amounts should include consideration of the pass-through payments going forward. Also, pass-through payment arrangements should be approved by the Board going forward. Management should also consider recovering from MDC amounts paid by OCTA for which RCOC reimbursement was not obtained.	May-24	The agreement with MDC will expire in June 2024 and staff will reconsider the pass-through arrangement at that time, as well as, ensure pass-through payments, if continued, are considered when evaluating the subsidy amount provided by OCTA. The new agreement will be subject to Board approval. Management has also revised billing procedures for pass-through trips to ensure disputed trips are deducted from payments to MDC; however, management has determined there is no contractual support to recover from MDC amounts for pass-through trips paid for by OCTA and disputed by RCOC.	
11/14/23	24-502	Operations and F&A	Cooperative Agreements with RCOC and MDC	Accounts Payable (AP) staff should ensure that invoices are properly authorized and verify that invoices are applied to the current agreement, and AR staff should ensure invoices are created against the current agreement. Operations should review invoices from MDC and reconcile trips before submitting invoices for payment.	May-24	AP staff will be provided refresher training to ensure invoices processed include the required signature authority and are applied to active agreements and a system control has been implemented to warn staff if an invoice is posted to an expired agreement. Going forward, AR staff will ensure invoices are created against the correct agreement. Operations staff have improved billing procedures for MDC to ensure full reconciliation prior to invoicing.	
11/20/23	Not Applicable	Planning	Investigation and Limited Scope Review of CTFP Scope Change for Project No. 20-HBCH-CBT-3960	Management should revise CTFP guidelines, with Board approval, to add guidance as to acceptable scope and/or programming changes to Project V projects, and include criteria to be used in evaluating changes. Staff should conduct and document evaluation of scope changes prior to seeking Board approval, and ensure that defined requirements are met. Reprogrammed projects should be evaluated against projects as originally scored when funding was approved.	May-24	Management will update operating procedures and implement standardized forms for documenting Project V scope change requests, including evaluation criteria and analysis. Scope changes will be reviewed against original project scoring criteria. Staff will also improve communication of scope changes in reports to the Board. Finally, management will review CTFP guidelines and consider changes to address scope changes by June 30, 2024.	

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11/20/23	Not Applicable	Planning	Investigation and Limited Scope Review of CTFP Scope Change for Project No. 20-HBCH-CBT-3960	Management should return to the Board with a clear description of the scope change action and its impact on future funding decisions, and request consideration of approval. Going forward, management should ensure accurate and complete communications with the Board.	May-24	Management will bring forward a more detailed description of the scope change in an upcoming staff report. This will clearly outline the timing, nature of changes, and draft recommendations that the change aligns with the intent and benefits of the original grant award. Moving forward, management will ensure scope changes are communicated openly with all relevant details.	
12/5/23	24-503	Executive Office	Transit Police Services (TPS)	Management should ensure annual work plans are developed and documented as required by the contract.	Jun-24	Management has begun compiling the annual work plan in conjunction with TPS and expects the plan to be published in March 2024.	
12/5/23	24-503	Executive Office	TPS	Management should implement a process to evaluate, estimate, and document the methodology of assigning TPS costs on an annual basis. Management should also consider implementing a process to accumulate and report all costs of providing transit security.	Jun-24	Management will collaborate with the Orange County Sheriff-Coroner Department to estimate and document contract costs on an annual basis. In addition, management will work with the Financial Planning and Analysis Department to ensure the ability for each department responsible for an aspect of providing or supporting TPS, to accumulate and consolidate transit security costs for a better understanding of the overall cost of transit security. Management will work with Financial Planning and Analysis to consolidate TPS associated costs and reporting by July 2024.	
12/5/23	24-503	Executive Office	TPS	Management should implement procedures to document agreements for enhanced services, including the type, time, and place of services, and obtain a cost estimate for services. Management should reconcile invoices for special services to these documents and obtain support, or include in the contract, the rates to be charged prior to authorizing payment.	Jun-24	Management will establish procedures to better document the estimates, agreed cost, and occurrence of special services performed. Management will also seek rates for services to be documented in annual contract amendments moving forward with the 2024-2025 TPS contract amendment. Work should conclude by May 2024.	

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12/5/23	24-503	Executive Office	TPS	Management should strengthen controls over canine-related expense tracking and ensure all eligible costs are identified and submitted for grant reimbursement. Management should also review fiscal year (FY) 2022-23 eligible expenses that were not submitted and request reimbursement.	Jun-24	Management has begun improvements to canine-related expense tracking and to establish an enhanced invoice review process. Once established, the process will improve oversight to ensure eligible costs are identified and submitted for grant reimbursement. Starting immediately, and to be completed by the end of February 2024, management will work with the grants team to review eligible expenses and attempt to recover expenses of \$13,129.29 for FY 2022-23.	

**Audit Recommendations Closed During  
Second Quarter, Fiscal Year 2023-24**

**ATTACHMENT C**

<b>Audit Issue Date</b>	<b>Report Number</b>	<b>Division/ Department/ Agency</b>	<b>Audit Name</b>	<b>Recommendation</b>	<b>Internal Audit Status Comments</b>
3/10/23	23-512	Contracts Administration and Materials Management (CAMM)	State and Federal Consulting Contracts	CAMM should ensure that procurements of state and federal contracts comply with all policy requirements.	CAMM held a team meeting to remind staff to check evaluator scoring sheets for accuracy. CAMM also reminded staff to ensure compliance with policy related to the number of evaluators required.
8/23/22	22-512	Operations Division (Operations) and Finance and Administration Division (F&A)	Non-Revenue Vehicle Purchases and Assignment	Invoice review procedures should be enhanced to include validation of all charges. In addition, Accounts Payable should recover the identified duplicate payment and updated policies to reflect whether a three-way match process is allowable for vehicle purchases. Accounts Payable should consistently confirm the three-way match prior to payment and individuals who receive vehicles in the system should physically verify their delivery.	Invoice approval templates now require acknowledgement that invoice charges are in compliance with agreement terms, the duplicate payment identified has been recovered, and management has notified staff that a physical inspection is required prior to receiving vehicles in the system.
8/23/22	22-512	Operations and F&A	Non-Revenue Vehicle Purchases and Assignment	Management should enhance controls to ensure employees' eligibility to drive prior to granting a vehicle reservation. Management should re-evaluate whether employees should be allowed to reserve vehicles for weeks at a time. Finally, all relevant information should be reflected in the reservation system.	Base management now requires staff to present a valid driver's license before checking out a motor pool vehicle. In addition, base staff have made improvements to documenting all necessary information in the Fleet Commander system. Finally, General Services staff now allow only daily reservations and verify eligibility to drive for all administrative employees checking out motor pool vehicles.
6/30/23	22-513	Operations	Follow-up: Independent Cost Estimates	Maintenance Resource Management (MRM) should ensure proper oversight and monitoring of burn rate of towing services agreements. MRM should develop estimates to ensure funding is sufficient.	MRM enhanced the current Maintenance contracts tracking spreadsheet to include the burn rate calculation and the date of the last invoice paid. These enhancements will provide information to staff in advance of contracts running low on funds, funding commitments due on outstanding invoices, and flag missing invoices.
6/13/23	23-514	People and Community Engagement (PACE)	Customer Information Center (CIC) Services: Alta Resources, Agreement No. C-0-2698	Management should improve timeliness of invoice review, approval, and processing and enforce requirements for contractor certification of invoices.	Management has improved the timeliness of invoice review, approval, and processing and is enforcing requirements for contractor certification on invoices.
6/13/23	23-514	PACE	CIC Services: Alta Resources, Agreement No. C-0-2698	Management should review changes to key personnel and process amendments in a timely manner.	Management has communicated with the project manager and the contractor to advise of requirements for timely communication and processing of amendments for changes in key personnel.