



**January 22, 2020**

**To:** Finance and Administration Committee

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

**Subject:** Fiscal Year 2019-20 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 2019-20 Internal Audit Plan on August 12, 2019. This update is 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 2019-20 Internal Audit Plan as an information item.

**Background**

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

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

**Discussion**

The OCTA Internal Audit Department Fiscal Year (FY) 2019-20 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project.

During the second quarter of the FY, Internal Audit completed an audit of compliance with regulations, policies, and procedures governing compensation, mileage reimbursement, and training for members of the Board of Directors. Based on the audit, controls to ensure compliance with regulations, policies, and procedures were adequate; however, one recommendation was offered to enhance written policies and procedures. Management agreed and indicated that policies would be amended accordingly.

Also, during the quarter, the semi-annual audit of investments for the period January 1 through June 30, 2019, was issued. The audit concluded that OCTA complied with its investment policies; however, an error was identified in the Second Quarter 2019 Investment and Debt Report and the investment compliance schedule did not reflect all investments and bond indenture requirements. Internal Audit recommended review procedures be enhanced, policies be revisited, and the investment compliance schedule be updated to include evaluation of all investments and requirements. Management agreed and indicated that revisions were underway.

An audit of oversight controls and contract compliance related to the Orange Transportation Center Parking Structure Project found that procurements were handled in accordance with policies and procedures, status monitoring and reporting controls were operating, and consultants provided services in accordance with their contracts. Three recommendations were made to improve contract language in a few areas, to ensure consultants utilize adequate labor timekeeping systems, and to develop and implement procedures to ensure compliance with requirements for federally-funded assets. Management agreed and indicated that the recommendations would be implemented.

An audit of corporate credit cards reported that controls to ensure transactions are valid, authorized, and in compliance with policies and procedures, were generally adequate; however, one recommendation was made to clarify requirements for obtaining and documenting approvals. Management agreed to update procedures to provide clarification.

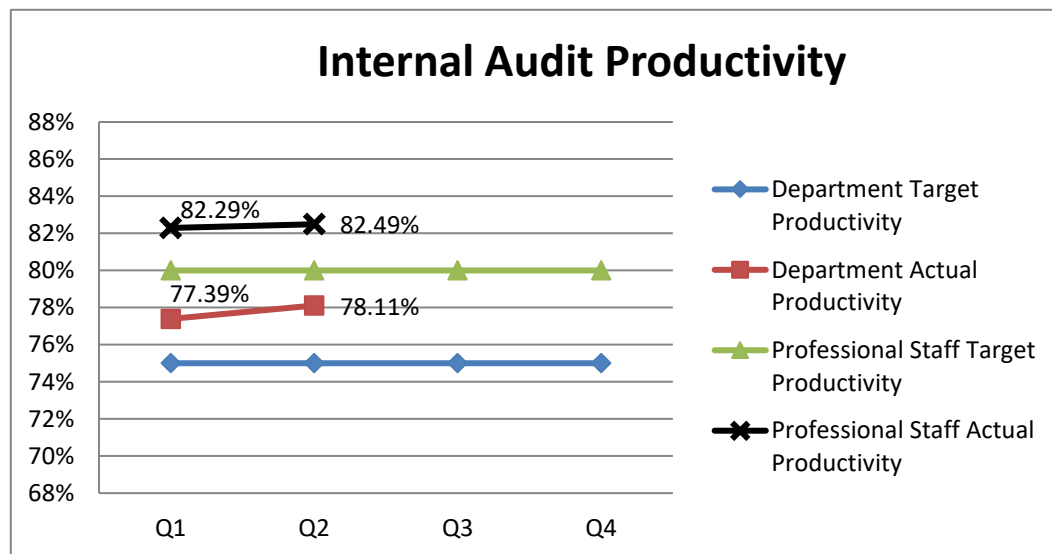
A bus marketing audit concluded that procurement and invoice review procedures should be improved, and documentation of marketing programs should be enhanced. Three recommendations were offered, and management responded that additional controls have been implemented and training will be provided to ensure compliance.

Finally, an audit of the 91 Express Lanes Master Custodial Account activities and revenue allocation was completed and found that revenues were allocated in accordance with the cooperative agreement between OCTA and the Riverside County Transportation Commission. The audit also found controls over wire transfers from the 91 Express Lanes Master Custodial Account were adequate and effective.

### 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, 2019, Internal Audit achieved productivity of 77 percent, and the professional staff achieved productivity of 82 percent.



### Price Reviews

At the request of the Contracts Administration and Materials Management Department (CAMP), and consistent with OCTA procurement

policy, Internal Audit applies agreed-upon procedures to single bid procurements to ensure that CAMM handled the procurement in a fair and competitive manner. Internal Audit also applies agreed-upon procedures to 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 six price reviews.

#### Fraud Hotline

Internal Audit is responsible for administering the OCTA Fraud Hotline. The fraud hotline system allows reporters to file complaints anonymously through the internet or by calling a toll-free phone number. Complaints may also be received in person, by phone, or by mail directly to Internal Audit. To ensure proper recordkeeping, all complaints are recorded in the Ethicspoint system, regardless of how the complaint is received.

During the quarter ended December 31, 2019, Internal Audit received seven reports through OCTA's Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com). Based on the nature of the complaints, six were referred to management, legal counsel, or an appropriate outside agency for disposition. One report did not provide sufficient information for follow-up. 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, 2019, Internal Audit provided 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 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 December 31, 2019, Internal Audit completed follow-up reviews of ten outstanding audit recommendations and closed all of them (Attachment C). Follow-up of another three recommendations is in process at quarter end. A total of ten recommendations were added as a result of audits issued during the second quarter.

***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 2019-20 Internal Audit Plan, Second Quarter Update
- B. Outstanding Audit Recommendations, Second Quarter, Fiscal Year 2019-20
- C. Audit Recommendations Closed During Second Quarter, Fiscal Year 2019-20

**Prepared by:**



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**Orange County Transportation Authority  
Internal Audit Department  
Fiscal Year 2019-20 Internal Audit Plan  
Second Quarter Update**

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 Reviews	FY20-001 through FY20-004	Coordinate and report on annual financial and agreed-upon procedures reviews for fiscal year 2019-20.	Financial	450	319	131	In Process
Federal Triennial Review	FY20-006	Coordinate and report on results of the required Federal Transit Administration's Triennial Review.	Compliance	80	14	66	Issued 10-31-19
External Regulatory Audits	FY20-005	Coordinate and report on external audits by regulatory or funding agencies.	Compliance	60	4	56	
<b>Internal Audit Department Projects</b>							
Risk Assessment and Annual Audit Plan	FY20-100	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	200	56	144	
Quality Assurance and Self-Assessment	FY20-101	Update of Internal Audit Policies & Procedures. Annual self assessment of the Internal Audit Department's (Internal Audit) compliance with Government Auditing Standards.	Quality Assurance	160	56	104	
Fraud Hotline Activities	FY20-102	Administrative duties related to maintenance of the fraud hotline and work related to investigations of reports of fraud, waste, or abuse.	Fraud Hotline	240	33	208	7 Reports Received
Automated Workpaper Solution	FY20-103	System updates/training related to automated workpaper solution.	Workpaper System	40	10	30	
<b>Internal Audits</b>							
<b>Clerk of the Board</b>							
Board Compensation and Ethics Compliance	FY19-513	Review procedures and record-keeping processes evidencing compliance with Assembly Bill 1234.	Compliance	180	202	(22)	Complete 10-31-19
<b>Express Lanes Program</b>							
Master Custodial Agreement	FY19-514	Review and test activities related to the Master Custodial Agreement between the Orange County Transportation Authority (OCTA), Riverside County Transportation Commission, and the Bank of the West for tracking and deposit of revenues and transponder deposits.	Compliance	300	308	(8)	Complete 12-10-19
<b>Human Resources and Organizational Development</b>							
Medical Exams	FY20-5XX	Assess and test controls to ensure compliance with Federal Motor Carrier Safety Administration regulations, policy and procedurs related to employee medical safety certifications.	Compliance	180	92	88	In Process
Department of Motor Vehicles (DMV) Pull Notice Program	FY20-5XX	Assess and test operation of the DMV Pull Notice Program.	Compliance	240		240	

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<b>Capital Programs</b>							
Interstate 5 (I-5) Project: State Route (SR) 55 to SR-57	FY20-5XX	Review the I-5 Project: SR-55 to SR-57, including project administration, oversight controls, and contract compliance.	Internal Control/ Compliance	300		300	
Orange Transportation Center Parking Structure Project	FY19-508	Review of the Orange Transportation Center Parking Structure Project, including project administration, oversight controls, and contract compliance.	Internal Control	220	184	37	Complete 10-31-19
<b>Planning</b>							
Comprehensive Transportation Funding Programs (CTFP): Oversight and Reporting	FY20-5XX	Review and assessment of OCTA's monitoring and reporting controls related to CTFP projects.	Internal Control	240		240	
<b>Operations</b>							
Coach Operator Scheduling	FY19-505	Review the coach operator scheduling process, including the use of the HASTUS application.	Operational	80	88	(8)	Complete 8-26-19
Same Day Taxi Service	FY20-503	Assess adequacy of oversight controls and contract compliance with key provisions of the agreement with Yellow Cab of Orange County for the provision of Same Day Taxi Service.	Internal Control/ Compliance	300	274	27	In Process
Revenue Vehicle Maintenance	FY20-506	Evaluate the adequacy of controls in place to ensure compliance with revenue vehicle maintenance standards and test for compliance with maintenance policy and procedures.	Operational	300	57	243	In Process
<b>Finance and Accounting</b>							
Treasury	FY20-502	Semi-annual review of investments: compliance, controls, and reporting.	Compliance	200	177	23	Complete 11-4-19
Grant Closeouts	FY19-510	As-needed, required financial and compliance audits of grants at closeout to ensure propriety of expenditures.	Compliance	40	22	18	Complete 7-31-19
Renewable Natural Gas Credits	FY19-511	Review and test compliance with the agreement with Element Markets for renewable gas credits.	Compliance	60	23	37	Complete 7-16-19
Corporate Credit Cards	FY20-5XX	Evaluate the adequacy of controls over corporate credit cards and test for compliance with policy and procedures.	Operational	240	222	18	Complete 12-23-19
Interagency Revenue Agreements	FY20-5XX	Review and test activities related to the interagency fare revenue agreements between OCTA and Southern California Regional Rail Authority and the Los Angeles-San Diego-San Luis Obispo Rail Corridor Agency.	Operational	240	160	80	In Process
Banking Services - Bank of the West	FY20-5XX	Assess and test controls to ensure compliance with the agreement between OCTA and Bank of the West for banking services.	Operational/ Compliance	240	22	218	
<b>Information Systems</b>							
Patch Management	FY20-501	Assess the adequacy of the patch management program.	Operational	120	77	43	In Process

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<b>Contract Administration and Materials Management (CAMM)</b>							
Price Reviews	PR20-5XX	As requested by the Contracts Administration and Materials Management (CAMM) Department, apply agreed-upon procedures to Sole Source, Single Bid, and Architectural and Engineering firm proposals.	Price Review	800	327	473	6 Reports Issued
Buy America	FY20-5XX	As requested by CAMM, apply agreed-upon procedures to determine compliance with Buy America requirements.	Buy America	200		200	
<b>External Affairs</b>							
Bus Marketing	FY19-512	Review the bus marketing program; assess and test oversight controls and contract compliance over contracts for bus marketing.	Operational/ Compliance	160	453	(293)	Complete 12-5-19
<b>Unscheduled Reviews and Special Requests</b>							
Unscheduled Reviews and Special Requests	FY20-800	Time allowed for unplanned audits and/or to address requests from the Board and management.	Varies	240	35	205	
<b>Monitoring Activities</b>							
Measure M Taxpayer Oversight Committee (TOC)	FY20-601	Coordination of audit activities on behalf of the Audit Subcommittee of the TOC.	Administrative Support	60	7	53	
Metrolink Audit Activities	FY20-602	Obtain and review audit results of Metrolink activities.	Non-Audit Service	40		40	
Capital Asset Inventory Observation	FY20-603	At the request of the Finance and Administration Division, observe and apply limited procedures related to the bi-annual capital asset inventory counts.	Non-Audit Service	80		80	
Bus Base Inspections	FY20-604	At the request of the Operations Division, participation on annual base inspection teams.	Non-Audit Service	40	20	20	Complete
<b>Follow-up Reviews</b>							
Follow-up Reviews and Reporting	FY20-700	Follow-up on the status of management's implementation of audit recommendations.	Follow-up	320	149	171	
<b>Total Audit Project Planned Hours (A)</b>				<b>6,650</b>	<b>3,390</b>	<b>3,261</b>	



**Orange County Transportation Authority**  
**Internal Audit Department**  
**Fiscal Year 2019-20 Internal Audit Plan**  
**Second Quarter Update**

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	58	122	
Executive Steering and Agenda Setting Meetings				180	60	121	
Internal Audit Staff Meetings				150	86	64	
Other Administration				1,500	747	754	
			<b>Total Hours (B)</b>	<b>8,660</b>	<b>4,340</b>	<b>4,321</b>	
			<b>Department Target Efficiency (A/B)</b>	75%	78%		
			<b>Target Efficiency - Professional Staff</b>	80%	82%		

**Outstanding Audit Recommendations  
Second Quarter, Fiscal Year 2019-20**

<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 and Status</b>	<b>Internal Audit Status</b>
6/17/19	19-506	Human Resources and Organizational Development (HROD)	Construction Safety Program	The Internal Audit Department (Internal Audit) recommends that management further develop policies, procedures, and guidelines to provide a comprehensive, risk-based framework for monitoring contractor compliance with construction safety regulations.	Dec-19	Management concurs with the recommendation and will further evaluate the safety specifications levels and make appropriate revisions to streamline the requirements of submittal deliverables for lower risk contracts. Management will also implement procedures to ensure safety-related training for project managers and safety reporting by applicable contractors.	In Process
6/17/19	19-506	HROD	Construction Safety Program	Internal Audit recommends that management develop procedures for documenting and tracking safety activities. Documented activities, and follow-up of safety issues observed, should be retained and used to complete monthly activity reports.	Dec-19	Management concurs with the recommendation and will develop a tracking tool to document applicable construction safety activities and observations.	In Process
3/12/19	N/A	Planning Division (Planning) and Finance and Administration (F&A)	Measure M (M2) City Audits: Local Fair Share and Senior Mobility Program	M2 Local Programs staff should review observations with legal counsel and develop recommendations for the Board of Directors' (Board) consideration. In addition, Planning and F&A staff should monitor implementation of corrective action by cities.	Sep-19	Staff will review observations and make recommendations for Board action, as appropriate. Staff will also follow-up with cities to provide information on requirements and obtain revised Expenditure Reports, as applicable.	<b>In Process - Update Jan 2020 -</b> Staff has followed up with cities; all cities with findings attended a M2 Finance Directors workshop where all findings were reviewed. Several cities with findings will be re-audited in the coming months with results presented to the Board. The cities of Santa Ana and Stanton have been found ineligible pending the outcome of fiscal year 2018-19 agreed-upon procedures.
10/31/2019	19-513	Clerk of the Board and HROD	Board Member Compensation, Mileage Reimbursements, and Training	Internal Audit recommends management update policies and procedures to address all applicable payments and payees, to require training of all compensated persons representing the Orange County Transportation Authority (OCTA) on boards and/or committees, and to ensure proper communication of policies to Board members, and former Board members representing OCTA, on a periodic basis.	Apr-20	The policy will be revised and provided to all Board members and former Board members by December 2019, upon update, and annually thereafter. Revisions to the language in the Personnel and Salary Resolution will be made and presented for Board approval with the fiscal year 2020-21 budget.	

**Outstanding Audit Recommendations  
Second Quarter, Fiscal Year 2019-20**

<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 and Status</b>	<b>Internal Audit Status</b>
10/31/19	19-508	Capital Programs and F&A	Oversight Controls and Contract Compliance related to the Orange Transportation Center Parking Structure Project	Internal Audit recommends that independent cost estimates (ICE's) be prepared prior to receipt of price and cost information from contractors. Internal Audit also recommends that project management instruct Construction Management consultants (CM's) to retain documentation evidencing scrutiny of force account costs, including credits. For future contracts, Internal Audit recommends contract language outlining labor costs paid on force account be clarified and enforced, with consideration for treatment of payroll insurance and taxes.	Apr-20	Management agrees that an ICE should be prepared to support proposed contract change orders. The detailed ICE will then be used by the CM and the project manager (PM) to reconcile and determine the adequacy of any costs provided by the contractor. The CM will be required to document justification or source for individual line items in the ICE. CM's will also be reminded to assure that appropriate documentation is retained to support force account costs paid to, or credits taken from, the contractor.  The Contracts Administration and Materials Management Department (CAMM) will work with legal counsel on language on how to treat payroll insurance and taxes for force account labor and to provide clarity to the contract provisions.	
10/31/19	19-508	Capital Programs and F&A	Oversight Controls and Contract Compliance related to the Orange Transportation Center Parking Structure Project	Internal Audit recommends that prime and sub-consultants be required to have an adequate labor timekeeping system.  Management should remind consultants of the need to request amendments to add staff, labor rates, and other direct costs in a timely fashion.	Apr-20	Capital Programs will work with CAMM to include language in the Personnel Qualifications and Responsibilities section of future Request for Proposals to require both prime contractors and sub-consultants to have an adequate labor timekeeping system.  During project kick-off meetings after contract execution and in on-going meetings with the PM's, CAMM staff will emphasize the need for timely submission of requests for amendments.	
10/31/19	19-508	External Affairs	Oversight Controls and Contract Compliance related to the Orange Transportation Center Parking Structure Project	Internal Audit recommends management develop and implement written procedures to outline roles and responsibilities of staff tasked with implementing operations and maintenance agreements, and performing ongoing oversight of agencies taking possession of assets built with federal funds.	Apr-20	Management agrees with the recommendation and is coordinating across all divisions within the agency to develop procedures that ensure adequate monitoring and oversight of federal facilities that are owned and maintained by an OCTA subrecipient.	
11/4/2019	20-502	F&A	Investments: Compliance, Controls, and Reporting January 1, 2019 through June 30, 2019	Internal Audit recommends the Treasury Department implement and document a more robust secondary review to ensure the accuracy of investment information presented to the Board.	May-20	Management has already implemented the use of a more robust review process by utilizing a checklist that validates each data input and is signed by the reviewing manager to ensure the integrity of the data for the Monthly and Quarterly Investment and Debt Reports.	

**Outstanding Audit Recommendations  
Second Quarter, Fiscal Year 2019-20**

<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 and Status</b>	<b>Internal Audit Status</b>
11/4/2019	20-502	F&A	Investments: Compliance, Controls, and Reporting January 1, 2019 through June 30, 2019	Internal Audit recommends that management revise the policy compliance schedule to evaluate all applicable investments in accordance with the policy. Also, if management intends to exempt debt reserve funds from diversification and maturity limits, the policy should be updated accordingly. Finally, the schedule should include information on indenture requirements and determination of compliance.	May-20	Management has already made a change to include cash equivalents in the compliance schedule. Management also agrees that additional clarification is required to expressly exempt debt service reserve funds from the policy and will make this change during the next update cycle. Finally, management will include information detailing indenture requirements and compliance going forward.	
12/5/2019	19-512	External Affairs	Bus Marketing	Management should revise practices to ensure that contracts for similar services are combined and contract terms are set for longer periods when recurring services are sought. Management should train staff and perform monitoring, to ensure procurements are not being designed to fall under approval thresholds.	Jun-20	Management concurs and has begun to implement practices to have longer terms and consolidate future contracts for similar services to support Bus Marketing needs. External consulting expertise will be procured to provide project management training. Management has also implemented a requisition process with added controls that will ensure procurements are not being designed to fall under approval thresholds.	
12/5/2019	19-512	External Affairs	Bus Marketing	Management should undergo training to reiterate the responsibilities of those charged with reviewing and approving invoices. Invoice Review Checklists should be blank and completed as invoices are reviewed.	Jun-20	Management has implemented a program controls function for all marketing and customer engagement contracts. This new function will ensure thorough and accurate reviews, approvals, and payments of contract invoices. Additionally, training will be provided.	
12/5/2019	19-512	External Affairs	Bus Marketing	Internal Audit recommends written procedures be reviewed with project managers and management require documented compliance with requirements. Documentation should include the source and support of stated evaluation criteria and related results.	Jun-20	Management will evaluate and update the current processes and procedures manual to reflect current needs and work environment to include the source and support of stated evaluation criteria and related results. It is expected that the new processes, procedures, and training will be completed by the end of December 2020.	

**Outstanding Audit Recommendations  
Second Quarter, Fiscal Year 2019-20**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response and Status	Internal Audit Status
12/20/2019	20-504	F&A	Corporate Credit Cards	Management should update policies to provide additional guidance for obtaining and documenting approvals.	Jun-20	Management will clarify procedures for the approval of business meals and purchase of complete tables. The procedures will also outline the acceptable forms of written authorization, such as interoffice memo, email, etc. Management anticipates implementing the changes in early January 2020.	

**Audit Recommendations Closed During  
Second Quarter, Fiscal Year 2019-20**

<b>Audit Issue Date</b>	<b>Report Number</b>	<b>Division/ Department/ Agency</b>	<b>Audit Name</b>	<b>Recommendation</b>	<b>Management Response</b>
10/10/18	18-514	Operations Division (Operations) and Finance and Administration (F&A)	ACCESS Service	The Internal Audit Department (Internal Audit) recommends that management enhance procedures for monitoring of ACCESS fare revenue. Procedures should include monitoring of coupons collected by both MV Transportation, Inc. (MV) and Yellow Cab, reconciliation of MV's daily coupon count sheets to the farebox reconciliation document, and investigation of variances exceeding a stated threshold.	Management agrees to enhance procedures for monitoring of ACCESS fare revenue and coupons collected by both MV and Yellow Cab. In addition, management will continue to reconcile count sheets to the farebox reconciliation report and will establish a threshold for researching variances. <b>Update December 2019:</b> Management has implemented a procedure whereby variances greater than one percent are deducted from MV invoices. In addition, management has implemented a procedure for monitoring coupons collected by Yellow Cab.
4/5/19	19-504	F&A	Mobile Ticketing Operations	Controls should be implemented to ensure timely removal of system access upon employee termination.	Management agrees to develop and implement policies and procedures to ensure timely removal of system access upon employee termination or reassignment. <b>Update October 2019:</b> Management has updated policies to include periodic review of system access.
4/5/19	19-504	F&A	Mobile Ticketing Operations	Written policies and procedures should be developed for mobile ticketing operations and activities.	Management agrees to develop policies and procedures to ensure proper identification and assignment of responsibilities, and continuity of operations in the absence of key staff. <b>Update October 2019:</b> Management has developed policies and procedures outlining the roles and responsibilities of staff related to Mobile Ticketing operations.
4/9/19	19-503	Human Resources and Organizational Development (HROD)	Recruitment and Employment	Internal Audit recommends management develop and implement detailed procedures that address all recruitment steps and reconsider whether to hire applicants with pending license suspensions or implement monitoring controls.	Management is in the process of revamping its procedures to address all recruitment steps, including procedures specific to coach operator and maintenance employee recruitments. Procedures will be developed to address the screening, hiring, and monitoring of applicants with pending license suspensions, pending criminal cases, and unfavorable or missing references, consistent with California law. <b>Update November 2019:</b> Management has updated procedures to address Coach Operator and Maintenance employee recruitments and monitoring of applicants with pending criminal charges and unfavorable or missing references. Per the new procedures, applicants with pending license suspensions may not proceed in the process until the license issue is resolved.
4/9/19	19-503	HROD	Recruitment and Employment	Internal Audit recommended management enhance procedures to ensure offers of relocation are properly approved and adequately documented. Management should also implement monitoring controls to enhance compliance with recruitment policies and procedures.	Management has provided the policy to staff and has developed template language to be included in applicant offer letters when relocation expenses are to be reimbursed. The offer letter requires the candidate's signature and agreement with the policy. Management will develop controls to ensure compliance with the policy. <b>Update November 2019:</b> Management has updated procedures and offer letter template language, as indicated, and has implemented a closeout review of the recruitment to ensure compliance with policies and procedures.

**Audit Recommendations Closed During  
Second Quarter, Fiscal Year 2019-20**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Management Response
4/9/19	19-503	HROD	Recruitment and Employment	Since service workers are required to operate buses, even on a limited basis, Internal Audit recommends that management reconsider the removal of the commercial driver license requirement. Alternatively, management should issue a formal directive to base management that service workers should never be asked or allowed to drive buses outside base property.	Management will update the policy to address licensing requirements by position. For positions that do not require a commercial license, the policy will state that the individuals should not operate buses outside of the base property. <b>Update November 2019:</b> The policy has been updated as indicated.
4/30/19	19-507	F&A	Investments: Compliance, Controls and Reporting July 1 - December 31, 2018	Internal Audit recommends that additional training be provided on the preparation of investment worksheets and reports. Also, Internal Audit recommends that Treasury use custodial statements as the basis for preparing the reports or, if Clearwater book values are used for reporting, that reconciliations be performed and documented.	In the future, if Clearwater book values are used for reporting, staff will reconcile any differences between the Clearwater values and the custodial bank statement values. In addition, staff has provided additional training and modified the review process to improve reporting. <b>Update October 2019:</b> Management now uses the custodial bank statement values for reporting, and has worked to improve the process for preparing reports.
4/30/19	19-507	F&A	Investments: Compliance, Controls and Reporting July 1 - December 31, 2018	Internal Audit recommends Treasury implement controls to monitor the ten percent threshold for asset-backed securities and ensure secondary review of daily holding reports is performed as required.	Management now uses a report that segregates mortgage and asset-backed securities so that the ten percent threshold can be monitored. In addition, a process has been put in place for secondary review of holding reports. <b>Update October 2019:</b> Management has implemented procedures for monitoring the ten percent threshold and performs secondary review.

**Audit Recommendations Closed During  
Second Quarter, Fiscal Year 2019-20**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Management Response
4/1/19	N/A	Operations, Planning Division, and F&A	Fiscal Year (FY) 2016-18 Transportation Development Act (TDA) Performance Audit Orange County Transportation Authority (OCTA)	Kimley Horn provided seven recommendations for consideration. The recommendations focused primarily on continuing existing efforts to enhance reporting processes, increase ridership, maximize revenues, improve documentation of the farebox recovery ratio, and planning for impacts of longer bus lives and clean fleet requirements. Kimley Horn also offered recommendations to improve paratransit services by performing recurring route efficiency reviews and considering alternative contracting models for the service.	Management agrees with the recommendations included in the FY 2016-18 TDA Performance Audit of OCTA.  <b>Update November 2019:</b> OCTA management provided Internal Audit with status updates for the seven recommendations included in the report. The updates outlined management's ongoing efforts and planned actions addressing the recommendations.
4/1/19	N/A	F&A	FY 2016-18 TDA Performance Audit Laguna Beach Municipal Transit Lines (LBMTL)	Direct staff to monitor implementation of recommendations included in the FY 2016-18 Triennial Performance Audit of LBMTL.	<b>Update November 2019:</b> The City of Laguna Beach provided OCTA staff with a formal status update on the recommendations included in the FY 2016-18 TDA Performance Audit of LBMTL. This formal update is provided on an annual basis as part of the City's annual TDA claim process.