OCTA

October 24, 2012

To: Finance and Administration Committee

From: Will Kempton, Chief Executive Officer

Subject: Employment and Compensation Review

Overview

The Internal Audit Department has completed an Employment and Compensation review. Based on the review, controls to ensure consistent, equitable, and authorized compensation actions are inadequate. While the Personnel and Salary Resolution provides some policy direction, there are no written procedures to govern the process for compensation analysis and adjustment, or for various personnel actions. In addition, Chief Executive Officer approval, as dictated by the Personnel and Salary Resolution, is often not obtained as required. Internal Audit has offered thirteen recommendations to develop and implement controls and written procedures to govern compensation and personnel actions.

Recommendation

Direct management to implement recommendations in the Employment and Compensation Review, Internal Audit Report No. 12-502.

Background

The Employment and Compensation Section of the Human Resources (HR) Department within the Human Resources and Organizational Development Division (HROD) is responsible for centralized recruitment, selection, and hiring, as well as compensation administration.

Annually, the Board of Directors (Board) approves a Personnel and Salary Resolution (P&SR) along with the fiscal year budget. The P&SR provides general policies regarding employment practices, compensation, and salary structure for administrative employees. According to the P&SR, the Chief Executive Officer (CEO) is charged with ensuring that policies and procedures provide for an effective and efficient organization, staffed with qualified employees receiving fair and equitable treatment. Consistent with that commitment, the CEO requested the Internal Audit Department (Internal Audit) include in this review testing of executive compensation and, in particular, testing of the Special Performance Awards program. During the course of this review, Internal Audit received a high level of cooperation and support from the Executive Office.

The P&SR also states that the Executive Director of HROD is responsible for managing the HR functions and is responsible for developing and administering HR policies and procedures that are in the best interest of the Orange County Transportation Authority and its employees.

According to data obtained from the Lawson payroll system, during the last three fiscal years, a total of 132 personnel actions with related salary increases occurred. These actions included 113 promotions, three transfers, three reclassifications, and 13 equity adjustments. Promotions represent (1) the movement of an employee within a job family (e.g. from an *Accountant* to a *Senior Accountant*), (2) the movement of an employee into a position resulting from an internal-only recruitment, or an internal and external recruitment, or (3) the movement of an employee into a higher level position without competition (waiver).

Discussion

The P&SR adopted by the Board of Directors (Board) outlines general policies regarding employment practices, compensation, and salary structure; however, Internal Audit found that the HR Department has no written procedures or rules for processing compensation and personnel actions, including promotions, equity adjustments, transfers, reclassifications, temporary assignments, extra help, and waivers. While forms for certain personnel actions have been developed and there are general practices in place, the lack of written, adopted procedures provides the opportunity for management to disregard typical rules and practices without additional approval and/or documented justification. Internal Audit recommended that management develop written procedures that address the rules, requirements, and process for compensation and personnel actions. Management agreed to develop and document procedures by February 2013.

While the HR Department employs two full-time compensation analysts to make recommendations related to personnel actions and salary increases, a documented compensation analysis is not always performed and, when it is performed, the resulting compensation increase often exceeds the recommended increase. In one instance, management approved a salary grade assignment and increase against the recommendation of both an outside consultant and an internal analysis. There was no documentation on file to justify the decisions that were not supported by analyses. Internal Audit recommended that management develop and implement written procedures governing the process for compensation analysis, including rules for making exceptions to the recommendations resulting from the compensation analysis. Management agreed to develop and document these procedures by February 2013.

Internal Audit found that only three of 13 equity adjustments evidenced CEO approval as required. Three others evidenced approval by the Deputy CEO. Of the equity adjustments reviewed, Internal Audit identified one employee that was granted two equity adjustments, as well as two promotions, resulting in cumulative salary increases of 44.53 percent during a 27-month period. Management indicated that the equity adjustments were part of a development plan and that the most recent promotion was part of a competitive process for an exceptional performer that management wanted to retain. Internal Audit also noted two employees that were granted equity increases as counter-offers to outside employment offers; however, there was no evidence of the outside employment offers, and compensation analysis documentation did not support the increases given. Management responded that these were atypical management responses to market pressures representing a strong desire to retain exceptional employees. Internal Audit recommended that management amend the P&SR to specifically address equity adjustments and develop written procedures to govern these actions and to ensure required authorization is obtained. Management indicated that consistent, formal documentation for equity adjustments will be maintained, including written justifications and approval by the CEO or his designee, and that written procedures will be documented by February 2013.

Internal Audit also identified three transfers that were accompanied by an increase in pay between 4.99 and 10.03 percent. A transfer refers to an employee who retains their title but transfers to another department or location, or takes on a different title in the same grade level. In one instance, an employee was transferred to a comparable title and given an increase; however, the documented compensation analysis did not support the salary grade level assigned to the position and, while a job title was included in the P&SR for approval by the Board, a job description was never completed. In two other instances, employees were transferred to positions within the same department and with the same title and were awarded salary increases. Internal Audit recommended management develop and document procedures governing employee transfers. Management should also ensure that job descriptions are developed and analyzed prior to obtaining Board approval and appointing employees to the positions. Management responded that the increases cited were granted based on business decisions and were approved by division management; however, documentation to evidence the rationale should have been retained. Management agreed to ensure that future transfers that are accompanied by a salary increase are processed only by exception and that approval authority and parameters are clearly defined and documented.

Internal Audit presented additional findings related to job descriptions, use of the Special Assignment title, reclassifications, new hire compensation, and Form 700 requirements, temporary assignments, approval of executive salaries, procedures for recall, and the Special Performance Awards program. To address the issues noted, Internal Audit recommended that management develop and implement procedures and controls.

Summary

Internal Audit has completed an employment and compensation review and has offered thirteen recommendations to develop procedures and controls to ensure consistent, equitable, and authorized compensation actions. Management has agreed to develop procedures, policies, and guidelines by February 2013.

Attachment

A. Employment and Compensation Review, Internal Audit Report No. 12 -510

Prepared by:

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ATTACHMENT A

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT

Employment and Compensation Review

Internal Audit Report No. 12-510

October 17, 2012
Reissued

Internal Audit Team: Janet Sutter, CIA, Executive Director
Gabriel Tang, CPA, Principal Internal Auditor

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Employment and Compensation Review
October 17, 2012

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Conclusion

The Internal Audit Department (Internal Audit) has completed an Employment and Compensation review. Based on the review, controls to ensure consistent, equitable, and authorized compensation actions are inadequate. While the Personnel and Salary Resolution provides some policy direction, there are no written procedures to govern the process for compensation analysis and adjustment, or for various personnel actions. In addition, Chief Executive Officer (CEO) approval, as dictated by the Personnel and Salary Resolution (P&SR), is often not obtained as required. Internal Audit has offered thirteen recommendations to develop and implement controls and written procedures to govern compensation and personnel actions.

In addition, we reviewed controls to ensure the accuracy of compensation information provided to the State Controller's office on an annual basis. Based on this review, controls to ensure the accuracy of compensation information provided to the State Controller are adequate.

Background

The Fiscal Year (FY) 2011-12 Internal Audit Plan included a review of employment and preliminarily evaluated the risk of this function to be high. Based on preliminary risk assessment and at the request of the CEO, Internal Audit expanded the scope of this review to include compensation administration and, in particular, the Special Performance Awards program that was designed and implemented for the FY 2012. The review also included testing to ensure the accuracy of compensation information provided to the State Controller on an annual basis.

The Employment and Compensation Section (Section) of the Human Resources (HR) Department within the Human Resources and Organizational Development Division (HROD) is responsible for centralized recruitment, selection, and hiring, as well as compensation administration. The Section is staffed with a section manager, two senior compensation analysts, two human resources representatives (recruiters), a human resources assistant, and three office specialists. The Section reports to the HR Department Manager. Since June 2011, the department manager position has twice been vacated and is currently vacant. In addition, in the last twelve months, the Section has lost one recruiter and one compensation analyst. The analyst position was recently filled, and the recruiter position remains open.

Annually, the Board of Directors (Board) approves a P&SR along with the FY budget. The P&SR provides general policies regarding employment practices, compensation, and salary structure for administrative employees. According to the P&SR, the CEO is charged with ensuring that policies and procedures provide for an effective and efficient organization, staffed with qualified employees receiving fair and equitable treatment. The P&SR also states that the Executive Director of HROD is responsible for managing the HR functions and is responsible for developing and administering HR policies and procedures that are in the best interest of the Orange County Transportation Authority (OCTA) and its employees.

The CEO created a Budget Review Committee (BRC), comprised of the Deputy CEO, the Executive Director of Finance and Administration, and the Executive Director of HROD, to review budget recommendations and related activities and to make recommendations to the CEO. Starting in late 2010, the BRC's duties were expanded to include review of all new hires to ensure that a vacant, budgeted position exists prior to an actual hire.

According to data obtained from the Lawson payroll system for the period July 1, 2009 through June 30, 2012, the following personnel actions with related salary increases occurred:

	Fiscal Year		
	2009-10	2010-11	2011-12
Promotions	31	30	52
Transfers	1	1	1
Reclassifications		1	2
Equity Adjustments		8	5
Total	32	40	60

Promotions represent (1) the movement of an employee within a job family (e.g. from an *Accountant* to a *Senior Accountant*), (2) the movement of an employee into a position resulting from an internal-only recruitment, or an internal and external recruitment, or (3) the movement of an employee into a higher level position without competition (waiver). Reclassifications represent changes in an employee's responsibilities that are often accompanied by a salary increase.

Objectives, Scope and Methodology

The objective was to identify and test controls over the employment and compensation administration process.

The methodology consisted of reviewing relevant written policies and procedures, interview of applicable personnel and management, identification and testing of controls over recruitment, hiring and recalls, compensation adjustments (including promotions, equity increases, and reclassifications), temporary assignments, special assignments, job category assignment and descriptions, and employee transfers. Internal Audit also tested executive salaries for evidence of proper authorization, a sample of data sent to the State Controller for accuracy, and a sample of Special Performance Awards for compliance with program guidelines.

The scope was limited to activity during the period July 1, 2009 through May 31, 2012. The scope did not include review of union negotiated step increases, college interns, the performance evaluation process, or employee terminations.

This review was conducted in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Comments, Recommendations, and Management Responses

Written Procedures for Compensation and Personnel Actions

The P&SR adopted by the Board outlines general policies regarding employment practices, compensation, and salary structure; however, the HR Department has no written procedures or rules for processing compensation and personnel actions, including promotions, equity adjustments, transfers, reclassifications, temporary assignments, extra help, and appointments without competition. While forms for certain personnel actions have been developed and there are general practices in place, the lack of written, adopted procedures provides the opportunity for management to disregard typical rules and practices without additional approval and/or documented justification.

The HR Department maintains an Employment and Staffing Manual that outlines procedures for recruitment and hiring; however, this document does not include procedures governing the process for developing a salary offer and/or the handling of counter offers.

The P&SR states that the Executive Director of HROD is responsible for developing and administering human resources policies and procedures.

Recommendation 1:

To ensure consistent, fair, and equitable practices with regard to compensation and personnel actions, Internal Audit recommends management develop written procedures that address the rules, requirements, and process for compensation and personnel actions.

Management Response:

Management concurs. The HR Department has historical practices and guidelines to provide general direction in executing compensation and personnel actions. The HR Department will develop and document formal procedures and guidelines for all compensation and personnel actions. The HR Department is currently developing a policy to delineate the signature approval authority for compensation actions. These procedures and guidelines will be completed by February 2013.

Compensation Analysis and Recommendations

OCTA employs two full time compensation analysts to provide recommendations related to compensation and personnel activities. These employees utilize both internal and external data to develop recommendations related to job classifications and salary levels. Forms documenting the analysis performed and related recommendations are typically utilized, although there are no written procedures governing the process or requirement for compensation analysis or rules for making exceptions to the recommendations resulting from the analysis.

Based on our review, a documented compensation analysis is not always performed and, when it is performed, the resulting compensation increase often exceeds the recommended increase without documentation as to the reason. In addition, the method for performing and documenting the analysis varies.

We reviewed documentation related to 16 external hires, 25 promotions, and 13 equity adjustments and found no documented evidence of compensation analysis for any of the external hires, or for 45 percent of the promotions and equity adjustments. Where a documented compensation analysis and recommendation was found, the increase in salary associated with the action exceeded the recommended increase 52 percent of the time.

In one instance, an employee was given a 3.8 percent increase and was placed into the title of Special Assignment pending the outcome of job analysis and creation of a new job title. OCTA paid $3,000 to an outside consultant to conduct the job analysis, and the firm recommended that the job be classified as a salary grade N. In addition, internal documentation indicated that the employee did not meet the education and experience requirements of the new position and that the proposed grade assignment and salary increase would create internal equity issues. However, the position was approved by HROD management at the higher salary grade P, and the employee was promoted with a 10 percent increase. The file contained no documentation to support the final decision as to salary grade or the related increase for promotion.

Recommendation 2:

Management should develop and implement written procedures governing the process for compensation analysis and rules for making exceptions to the recommendations resulting from the analysis.

Management Response:

Management concurs. A compensation analysis is conducted for every salary change or salary offer using the P&SR as the overarching policy document. However, the level and complexity of analysis varies and may not have been documented. The analysis may include a verification of the qualifications and education of the employee/applicant, an assessment of the external market to identify current market salaries for the work to be performed, and a review of internal peers to identify any potential equity issues. Based on this information, the analyst makes a salary recommendation. Salary offers are awarded within the salary range parameters of the P&SR. The HR Department will develop formal, written procedures for compensation analysis and salary adjustment recommendations.

Effective immediately, the HR Department will require formal documentation when there is an exception to the compensation analyst's recommendation. The HR Department is currently developing a process to delineate the signature approval authority for compensation actions, including exceptions. In addition, HR is developing a checklist that identifies the steps taken prior to the extension of any salary offer or adjustment. These procedures and guidelines will be completed by February 2013.

Equity Adjustment Authority

The P&SR does not specifically address equity adjustments. The P&SR states that the CEO is authorized to adjust an incumbent's salary. However, the P&SR also states that for the last three fiscal years, due to budget shortfalls, the total dollar amount of all salary increases granted is 0 percent of the total budgeted salaries for administrative positions.

Thirteen equity adjustments were completed during the period under review. Of these, only three evidenced approval by the CEO. Three others were approved by the Deputy CEO.

Review of documentation on file for these adjustments noted the following:

1. One employee was granted two equity adjustments, as well as two promotions, resulting in cumulative salary increases of 44.53 percent during a 27-month period.
2. Two employees were granted equity increases of 8.2 and 9.7 percent as counter-offers; however, there was no evidence of the outside employment offers to which the increases were counter, and compensation analysis documentation did not support the increases given. One of the employees was granted a promotion and a six percent increase one month prior to the equity adjustment.

Recommendation 3:

Management should amend the P&SR to specifically address equity adjustments, and related authority and written procedures should be developed and implemented to govern these actions and to ensure required authorization is obtained.

Management Response:

Management concurs and will update the P&SR to specifically address equity adjustments.

With respect to the equity adjustments noted, these were atypical management responses to market pressures representing a strong desire to retain exceptional employees. The salaries awarded were within the salary ranges of the P&SR and represented equity increases of between $1.98 and $4.16 per hour.

In the first example, two of the equity adjustments were part of a development plan, and the most recent promotion was part of a competitive process for an exceptional performer who was hired into OCTA as an Associate Financial Analyst (grade L), and, through a development plan and competitive process, was promoted over the course of twenty-seven months to a Section Manager (grade R). Again, this was an exceptional performer that management wanted to retain.

To respond to the audit findings, the HR Department will ensure there is consistent, formal documentation for equity adjustments including written justifications and approval by the CEO or his designee. The HR Department is currently developing an authorization procedure to delineate the signature approval authority for compensation actions. These procedures and guidelines will be available February 2013.

Employee Transfers

During the review period, there were 100 employee transfers. A transfer refers to an employee who retains their title but transfers to another department or location, or takes on a different title in the same grade level. An increase in pay is not typically associated with a transfer; however, we noted three instances in which lateral transfers were accompanied by an increase in pay between 4.99 and 10.03 percent. None of these actions evidenced approval by the CEO.

In one instance, an employee was originally hired into a grade level U position and temporarily transferred to a Special Assignment, grade level T position, with no reduction in salary, while a new, grade U position title was developed. Once the new position title was approved in the P&SR, the employee was then transferred to the position and given a 4.99 percent increase in salary. Internal Audit noted that compensation analysis documents on file did not support the salary grade level assigned to this position and, while the job title was included in the P&SR for approval by the Board, a job description was never completed.

In two other instances, employees were transferred to positions within the same department and with the same title and were awarded salary increases. One employee was given a 5.02 percent increase and the second employee was given a 10.03 percent increase. Further review noted that when the second employee was originally promoted to the position (ten months earlier) the employee did not meet the education and experience requirements and, at that time, received an increase of 11.53 percent. In addition, within two months of the employee's lateral transfer and increase, the employee was awarded two special award bonuses representing an additional 3.99 percent.

Recommendation 4:

Management should develop and implement written procedures and guidelines governing employee transfers. Exceptions should be adequately documented and approved. Also, management should implement controls to ensure job descriptions and related grade levels are developed and analyzed prior to obtaining Board approval and appointing employees to the positions.

Management Response:

Management concurs.

In the first instance cited, a compensation analysis was conducted and a recommendation made. Management did not concur with the recommendation and provided amplifying information in the form of a draft job description and a draft memo as justification for the employee's selection to the proposed position. Based on those amplifying documents, management made a business decision to pursue a different course of action. Management concurs that the rationale for this decision should have been more completely documented.

In the other two instances, transfers of employees occurred within the same department in which they were assigned. The transfers, with the noted increases were approved by management. In the future, the HR Department will ensure that the rationale for transfers that are accompanied with salary adjustments is clearly documented. In addition, HR will ensure that there are job descriptions for any filled positions.

The HR Department will ensure that transfers accompanied by a salary increase are processed only by exception and that approval authority and parameters are clearly defined and documented.

Assignment of Job Titles and Descriptions

Annually, the Board approves job titles and the respective salary ranges for those titles through approval of the P&SR.

Compensation staff review job descriptions and titles and recommend salary grade assignments based on a compensation analysis of both the external market and internal peer group. Once a job is defined and assigned a grade level, it is included in the P&SR for Board approval.

Internal Audit identified 29 approved job titles for which there is no written job description on file. Eight of the 29 job titles are currently in use by nine employees.

Recommendation 5:

Management should require that all job titles be formally defined and analyzed for compensation grade placement prior to obtaining approval by the Board and before placing an employee into the position.

Management Response:

Management concurs. The HR Department ensures that all initial positions within a job family are analyzed and graded before an incumbent is placed into the position. Often a job family is created even though there may be only one employee at the time the position is evaluated. The employee is placed in the appropriate salary grade, and titles for the job family are created to allow for future growth and expansion of responsibilities. For example, a position may initially be developed as an entry-level professional and over time the scope of work and responsibilities evolve so the incumbent is performing work at the level of a journey-level professional. While a job description was developed initially for the entry-level work, the journey-level and senior-level job descriptions were not created as the specific work had not or could not be defined at initiation of the job family. The HR Department will create new job descriptions for the incumbent positions identified and will ensure that a new job description is created, if one does not exist, before an employee is moved into a new position within the job family. New job descriptions for the eight positions identified by the audit will be created by February 2013.

Special Assignment

In every grade level from K to T there is a title of "Special Assignment" included in the P&SR. This title is intended as a temporary title to be used when a particular position class does not exist and there is a need for the position. The employee intended for the new position is placed into the Special Assignment title while a new position is defined and analyzed for appropriate placement in a salary grade. At the next update to the P&SR, the new position title is added and approved, and the employee is then moved into the new position title.

While the employee is in the Special Assignment category, there are no defined qualifications, education, experience, or duties for their position.

We reviewed all employees that were placed into Special Assignment titles during the audit period and found that six of the 13 employees (46 percent) remained in the Special Assignment title between 12 and 35 months, during which time there were one or more updates to the P&SR.

Recommendation 6:

Management should develop procedures for the use of this title and for monitoring the period of time employees remain in this category.

Management Response:

Management concurs. It is a general practice that employees placed in this designation are reassigned to a specific job title with publication of a new P&SR at the beginning of each fiscal year. However, for a variety of reasons, this may not be possible in all cases and management may elect to have an employee retain the "Special Assignment" title. The HR Department will develop and document procedures governing the use of this title and the required approvals for cases in which an employee retains the title beyond the next update to the P&SR. It is anticipated that procedures will be in place before February 2013.

Reclassifications to a Lower Salary Grade

The P&SR states, "When an employee is assigned to a classification with a lower salary range, or when the employee's position is reclassified to a lower salary range…the employee's salary may be reduced to the maximum of the new range, or with the approval of the Appointing Authority, the employee may retain his/her salary paid prior to the new assignment."

For the period under review, there were eleven actions whereby an employee was either reclassified or transferred into a lower salary grade level and title. Only one of the eleven actions was accompanied by a reduction in salary. One of the eleven actions was accompanied by a salary increase of 3.8 percent and four employees remained at salary levels that exceed the maximum allowed for the newly assigned salary grade without evidence of CEO approval as required. Three of the employees with salaries exceeding their assigned grade level are part-time "extra help" employees that, according to staff, may be hired at rates that exceed the maximum for their job category.

Recommendation 7:

To ensure consistent and equitable handling of these actions, HROD should develop procedures that specifically address how demotions and/or reclassifications into lower salary grade levels are to be executed and under what circumstances salaries will be adjusted. Controls should be developed to ensure CEO approval is obtained as required.

In addition, management should develop and implement procedures for “extra help” employees that include how salary rates are set for these positions and what the salary range parameters are.

Management Response:

Management concurs. These exceptions will be brought to the CEO in accordance with the P&SR.

In the example cited, three employees with salaries exceeding their assigned grade level were part-time, extra help employees. Extra help employees are paid on an hourly basis and do not receive any OCTA benefits. With the next P&SR, the existing definition of “extra help” employees will be refined and will include specific guidelines regarding the parameters for their hourly rates.

Executive Compensation

According to the P&SR, the salary of all executive employees must be determined by the CEO.

Internal Audit reviewed the personnel files for all 19 executive employees for evidence of CEO approval. The personnel file for one employee could not be located and files for another two employees lacked documentation of their current salary. Of the remaining 16 employee files, six lacked evidence of CEO approval of the salary.

Recommendation 8:

Internal Audit recommends that management develop and implement controls to ensure CEO approval is obtained and documented as required. In addition, procedures should be strengthened to ensure salary documentation and employee files are strictly controlled.

Management Response:

Management concurs. Per the P&SR Section 5.2, “The salary of each executive employee will be determined by the Chief Executive Officer” and, while not consistently documented, all executive salaries have been verbally authorized by the CEO. The HR Department will develop procedures to ensure written CEO approval is obtained for all salary adjustments for executive employees.

Regarding access to employee files, HR is currently working with the General Services Department to review employee access to the HR file room and controls have been tightened governing file room access. File room access changes will be implemented immediately and written procedures developed as part of an overall HR compensation procedure manual completed by February 2013.

External Hires

Review of the employment files for 16 external hires during the audit period noted two employees that were hired above the midpoint of salary grade V positions without evidence of CEO approval, as required by the P&SR. In addition, starting in late 2010, a practice of obtaining BRC approval for all new hires was implemented. Of the 11 new hires after 2011, three lacked evidence of approval by the BRC.

Recommendation 9:

Internal Audit recommends that management enhance controls to ensure proper CEO and BRC approvals are obtained as required.

Management Response:

Management concurs. The HR Department has implemented practices, using e-mail, to document new personnel requisition requests and gain BRC approval before recruiting activities begin. Paper copies of BRC approval e-mails are attached to each requisition and are retained in the recruiting file, and the electronic responses are retained and archived. The HR Department has enhanced controls to ensure the necessary approvals are obtained for personnel requisitions. The HR Department has revised the “verbal offer” document to include signature spaces for the CEO and the division executive director and will ensure the required signatures are obtained for salary offers above the mid-point of a salary range. These changes have already been implemented.

Statement of Economic Interests (Form 700)

There are no controls in place to ensure that employees that are required to file a Form 700 do so within 30 days of assuming a position that is designated as requiring the filing. There was no evidence that a Form 700 was filed by seven of 11 newly hired employees or by any of the eight promoted employees included in our testing.

Recommendation 10:

Internal Audit recommends that management develop controls to ensure all employees hired or promoted into designated positions file a Form 700 within 30 days as required.

Management Response:

Management concurs. The HR Department has created a notification that is now sent to the Clerk of the Board office for each new employee or promotion that requires Form 700 filing. This process has already been implemented.

Temporary Assignments

The P&SR states that when an employee is assigned duties of a different classification with the same or higher salary grade, the employee's salary may be increased up to five percent. However, the increase can only be made in instances when the assignment will last at least 30 days and will not, in any event, be paid for a period in excess of 180 days, without written authorization of the CEO.

For the period under review, Internal Audit tested all employees that were classified in temporary positions. Of the five employees whose assignments exceeded 180 days, four lacked evidence of CEO approval as required.

Recommendation 11:

Management should develop procedures for monitoring temporary assignments to ensure CEO approval is obtained when required.

Management Response:

Management concurs. The HR Department will develop additional controls to ensure CEO approval is obtained for temporary assignments that include a salary increase as prescribed by the PSR that exceed 180 days. These controls will be implemented in December 2012.

Procedures for Recall

There were no coach operator new hires during the audit period; however, 43 coach operators that were laid off as a result of a reduction in service were reinstated. The process used to evaluate a coach operator before re-hire is referred to as a recall.

Internal Audit tested the process used for the recall of five coach operators and found no exceptions; however, the procedures for processing coach operator recalls have not been documented.

Recommendation 12:

Internal Audit recommends that HROD update the Employment and Staffing Manual to include procedures for coach operator recalls.

Management Response:

Management concurs. As with all new hires, coach operators recalled to employment with OCTA are required to complete an application for employment, undergo a background check, and must pass a Department of Transportation physical with drug and alcohol testing before returning to employment at OCTA. These procedures are currently outlined in the Employment and Staffing manual for new hires. The HR department will update the Employment and Staffing Manual to specify differences in the procedures for the recall process.

Special Performance Awards Program

On February 13, 2012, the Board approved a Special Awards Program of three percent of budgeted administrative salaries. Guidelines for the granting of these awards and specific approval limits were set. Specifically, awards up to two percent of salary or $1,500 required approval by the respective Executive Director and HR Department; awards of two to four percent of salary or $1,500 to $3,000 required approval by the BRC, and awards exceeding four percent of salary or exceeding $3,000 required CEO approval. No awards exceeding six percent were allowed.

Internal Audit reviewed 40 special award actions. None of the awards exceeded the six percent threshold and all were documented; however, three did not evidence CEO approval.

Recommendation 13:

Internal Audit recommends that management enhance review controls to ensure required approvals are obtained and documented.

Management Response:

Management concurs. The administration of the Special Performance Award program has evolved and the HR department has enhanced monitoring controls to ensure required approvals are obtained.