

ORANGE COUNTY TRANSPORTATION AUTHORITY
MANAGEMENT LETTER
FOR THE YEAR ENDED JUNE 30, 2014



Board of Directors
Orange County Transportation Authority
Orange, California

In planning and performing our audit of the basic financial statements of the Orange County Transportation Authority (OCTA) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered OCTA's internal control over financial reporting (internal control) as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OCTA's internal control. Accordingly, we do not express an opinion on the effectiveness of OCTA's internal control.

We have previously reported on OCTA's internal control in our report dated October 30, 2014, in accordance with *Government Auditing Standards*. This letter does not affect our report dated October 30, 2014, on the financial statements of OCTA.

During our audit we noted certain matters involving internal control or operations that are presented for your consideration. These observations and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized on the accompanying pages.

CURRENT YEAR MANAGEMENT LETTER OBSERVATIONS

PAYMENT AUTHORIZATION

Observation:

OCTA maintains a policy that requires applicable personnel to have a Payment Authorization Form on file noting dollar limits and restrictions related to the employee's payment approval authority. Accounts Payable staff are required to review payments for proper authorization per the policy. During testing, we identified two cash disbursements, totaling \$695, that had been approved by individuals who did not have the proper payment approval authority.

Recommendation:

We recommend that OCTA review procedures with accounts payable staff and personnel with payment approval authority to ensure that disbursements are consistently authorized in accordance with the policy.

Management Response:

Management concurs with the recommendation. Management will hold training to review policies and procedures with Accounts Payable staff to ensure all invoices are processed in accordance with OCTA policy. Management will document the date the training is held. Management has also communicated the Payment Authorization Policy to all individuals responsible for authorizing payments.

YEAR-END CLOSING/TOLL ROAD VIOLATIONS RECEIVABLE

Observation:

Management is required to perform a year-end closing process to accumulate, reconcile, and summarize information for inclusion in the annual financial statements. With respect to the 91 Express Lanes, OCTA utilizes its contractor, Cofiroute, to track and report financial activities, including certain data for the estimation of violations receivable. During our procedures, it was noted that certain historical data used to determine the net realizable value of the violations outstanding in excess of 90 days contained errors. As a result, an audit adjustment was proposed to correct the violations receivable and toll revenues for the year ended June 30, 2014.

Recommendation:

We recommend that OCTA strengthen its year-end closing procedures over the violations receivable estimates.

Management Response:

Management concurs with the auditor's recommendation. OCTA has reviewed the process followed by the contractor to compile the data included in the outstanding violations receivables template used to determine the net realizable value of the violations receivables. OCTA has confirmed that the contractor has implemented the following processes to strengthen internal controls during the review process prior to releasing the violations receivable estimates to OCTA:

1. After the contractor's accounting staff fully populates the data into the OCTA provided violations receivables template, the contractor performs two additional reviews of the data with one review being performed by a manager who is completely independent of the contractor's accounting department. All reviewers perform the following reviews:
 - a. Confirm all populated violations template data back to independent source data.
 - b. Confirm that all violations template formulas are updated properly for the quarter.
 - c. Perform an analysis of the violations outstanding in excess of 90 days for reasonableness and consistency by comparing the current quarterly data to prior quarters and prior year data and investigating any material variances.
2. Effective 12/31/14, the violations template will be updated to add an additional sheet for OCTA review showing analytical analysis being performed.
3. Effective 12/31/14, OCTA will receive the detailed quarterly reports that support the data on the violations template and attachment as follows:
 - a. Violations A/R sheet – all outstanding violations.
 - b. Cofiroute Collection Data sheet – outstanding violations less than 90 days.
 - c. LES/LGBS Collection Data – outstanding violations greater than 90 days.

In addition to the new internal controls implemented by the contractor, OCTA will perform a quarterly review that will focus on variances in order to identify significant variations that could impact the calculation of the receivables estimate to be recorded at the end of the fiscal year. Any significant variation will be researched and justified before the estimate is recorded. Also, issues that could impact this calculation will be addressed and analyzed during monthly meetings with contractor.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Orange County Transportation Authority gained during our work to make observations and suggestions that we hope will be useful to you.

We would be pleased to discuss these observations and recommendations with you at any time. This report is intended solely for the information and use of OCTA, management, and others within OCTA and is not intended to be and should not be used by anyone other than these specified parties.



Laguna Hills, California
October 30, 2014