



April 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, Third 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 report provides an update for the third quarter of the fiscal year 2019-20.

Recommendation

Receive and file the Orange County Transportation Authority Internal Audit Department Fiscal Year 2019-20 Internal Audit Plan, Third Quarter Update.

Background

The Internal Audit Department (Internal Audit) provides independent appraisals of the Orange County Transportation Authority's (OCTA) operations and activities to assist management and the Board of Directors in the discharge of their 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) Third Quarter Update (Attachment A) reflects the status of each audit project.

During the third quarter of the FY, Internal Audit completed an audit of Same-Day Taxi Services and concluded that program and contract oversight controls and invoice review controls were adequate and functioning, and that Yellow Cab of Greater Orange County complies with contract terms. One recommendation was made to improve procurement of this service in the future by assessing competition, and ensuring compliance with evaluation committee composition, interview, and proposal evaluation procedures. Management agreed with the recommendation and indicated that staff will conduct an industry workshop with potential vendors to assess the likelihood of competition in the future. Management also indicated policy and procedures would be revised to require that staff follow competitive-negotiated procurement procedures when single proposals are received.

An audit of interagency fare revenue agreements with the Southern California Regional Rail Authority and the Los Angeles-San Diego-San Luis Obispo Rail Corridor Agency was also issued and concluded that controls in place to ensure collection of revenues in accordance with these agreements are adequate and functioning.

Also, on behalf of Internal Audit, an audit of OCTA's Patch Management Program was issued by the firm BCA Watson Rice, LLP. The audit found that the Patch Management Program for the Windows operating environment complies with industry standards and best practices; however, auditors recommended the program be expanded to address areas outside the Windows environment. The auditors identified five areas of improvement to further enhance the program. Management agreed with the recommendations and indicated that progress has been made, and efforts will continue, to implement recommended improvements.

The semi-annual audit of investments for the period July 1 through December 31, 2019, was also issued, and reported that OCTA complied with its debt, investment, and reporting policies and procedures during the period.

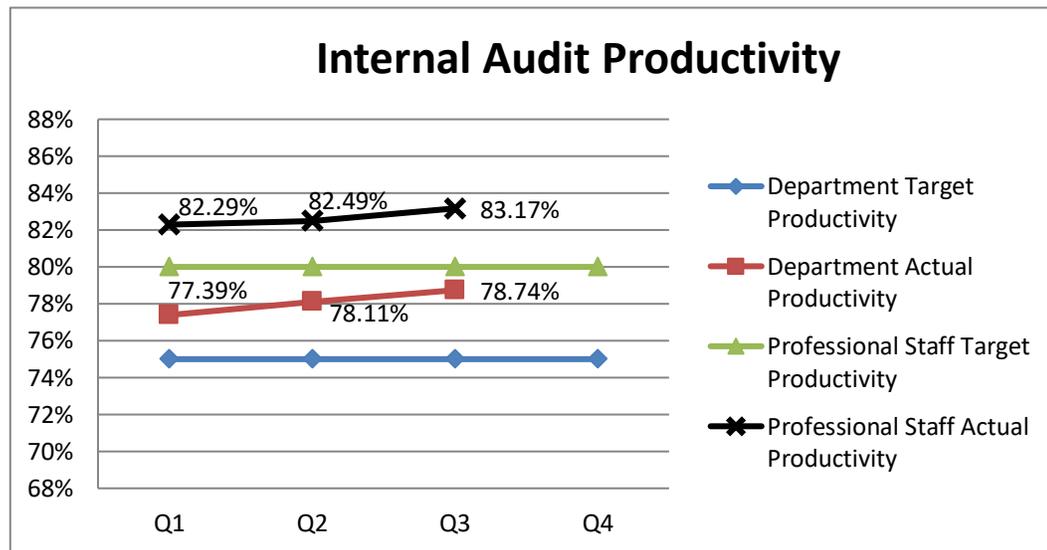
Eide Bailly LLP, an independent accounting firm, issued results of agreed-upon procedures (AUP) related to Measure M2 Maintenance of Effort expenditures by the cities of Santa Ana and Stanton for the FY ended June 30, 2019. Based on the audits, the cities spent sufficient funds to meet the required minimum expenditures as outlined in settlement agreements between the cities and OCTA.

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 third quarter ended March 31, 2020, Internal Audit achieved year-to-date cumulative productivity of 79 percent, and the professional staff achieved cumulative productivity of 83 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management (CAMM) Department, and consistent with OCTA procurement policy, Internal Audit applies AUP to single bid procurements to ensure that CAMM handled the procurement in a fair and competitive manner. Internal Audit also applies AUP 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 third quarter, Internal Audit issued results of fifteen 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 March 31, 2020, Internal Audit received five reports through OCTA's Fraud Hotline, www.ethicspoint.com. Based on the nature of the complaints, three were referred to management, legal counsel, or an appropriate outside agency for disposition. One report did not provide sufficient information for follow-up, and another report was investigated by Internal Audit, resulting in a recommendation being made to management to enhance policy. 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 March 31, 2020, 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 March 31, 2020, Internal Audit completed follow-up reviews of four outstanding audit recommendations and closed one of them (Attachment C). Two recommendations from the audit of Construction Safety have been partially addressed but will remain open until management updates policy and procedures and conducts staff training. One recommendation from the audit of Board of Directors' (Board) compensation also remains open pending management obtaining Board approval of the Personnel and Salary Resolution for FY 2020-21.

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, Third Quarter Update
- B. Outstanding Audit Recommendations, Third Quarter, Fiscal Year 2019-20
- C. Audit Recommendations Closed During Third Quarter, Fiscal Year 2019-20

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

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
Mandatory External Independent Audits							
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	494	(44)	Complete
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	
Internal Audit Department Projects							
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	72	128	
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	152	8	
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	54	187	23 Reports Year-to-Date
Automated Workpaper Solution	FY20-103	System updates/training related to automated workpaper solution.	Workpaper System	40	26	14	
Internal Audits							
Clerk of the Board							
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
Express Lanes Program							
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
Human Resources and Organizational Development							
Medical Exams	FY20-508	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	399	(219)	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	

**Orange County Transportation Authority
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Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
Capital Programs							
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
Planning							
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	
Operations							
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	279	22	Complete 1-8-20
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	336	(36)	In Process
Finance and Accounting							
Treasury	FY20-502, FY20-509	Semi-annual review of investments: compliance, controls, and reporting.	Compliance	200	313	(113)	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	FY20-504	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	FY20-505	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	196	44	Complete 2-5-20
Banking Services - Bank of the West	FY20-507	Assess and test controls to ensure compliance with the agreement between OCTA and Bank of the West for banking services.	Operational/ Compliance	240	70	170	In Process
Information Systems							
Patch Management	FY20-501	Assess the adequacy of the patch management program.	Operational	120	122	(2)	Complete 18-20

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Contract Administration and Materials Management (CAMP)							
Price Reviews	PR20-0XX	As requested by the Contracts Administration and Materials Management (CAMP) Department, apply agreed-upon procedures to Sole Source, Single Bid, and Architectural and Engineering firm proposals.	Price Review	800	875	(75)	25 Reports Issued
Buy America	FY20-5XX	As requested by CAMP, apply agreed-upon procedures to determine compliance with Buy America requirements.	Buy America	200	2	198	
External Affairs							
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
Unscheduled Reviews and Special Requests							
Unscheduled Reviews and Special Requests	FY20-800	Time allowed for unplanned audits and/or to address requests from the Board and management.	Varies	240	48	192	
COVID-19 Response and Downtime							
COVID-19 Response	FY20-XXX	Time spent working on COVID-19 Response.		-	17	(17)	
COVID-19 Downtime	FY20-XXX	Downtime related to COVID-19.		-	76	(76)	
Monitoring Activities							
Measure M Taxpayer Oversight Committee (TOC)	FY20-601	Coordination of audit activities on behalf of the Audit Subcommittee of the TOC.	Administrative Support	60	8	52	
Metrolink Audit Activities	FY20-602	Obtain and review audit results of Metrolink activities.	Non-Audit Service	40		40	
Capital Asset Inventory Observation	FY20-604	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	FY20-603	At the request of the Operations Division, participation on annual base inspection teams.	Non-Audit Service	40	20	20	Complete
Follow-up Reviews							
Follow-up Reviews and Reporting	FY20-700	Follow-up on the status of management's implementation of audit recommendations.	Follow-up	320	210	110	
Total Audit Project Planned Hours (A)				6,650	5,287	1,364	

Orange County Transportation Authority
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Fiscal Year 2019-20 Internal Audit Plan
Third Quarter Update

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
Internal Audit Administration							
Board and Committee Meetings				180	87	94	
Executive Steering and Agenda Setting Meetings				180	91	90	
Internal Audit Staff Meetings				150	117	33	
Other Administration				1,500	1,136	365	
			Total Hours (B)	8,660	6,716	1,944	
			Department Target Efficiency (A/B)	75%	79%		
			Target Efficiency - Professional Staff	80%	83%		

**Outstanding Audit Recommendations
Third 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
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.	Jun-20	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.	Update March 2020: Management has made some progress to further develop the program by revising the commodity code listing and revising safety specifications, to reduce requirements; however, the Construction Safety Management Policy has not been updated to better reflect responsibilities, and a training program for project managers is still in development.
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.	Jun-20	Management concurs with the recommendation and will develop a tracking tool to document applicable construction safety activities and observations.	Update March 2020: Management has partially addressed this item by developing a system for documenting safety observations; however, the Construction Safety Management Policy has not been updated to reflect the safety observations system responsibilities, and a training program for project managers is still in development.
10/31/2019	19-513	Clerk of the Board (COB) 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 of Directors (Board) members, and former Board members representing OCTA, on a periodic basis.	Jul-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 (P&SR) will be made and presented for Board approval with the fiscal year (FY) 2020-21 budget.	Update March 2020 - The COB) has updated policy and pocedures and communicated to the Board of Directors. HROD has added language to the P&SR and will present these for Board approval with the FY 2020-21 budget.

**Outstanding Audit Recommendations
Third 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
10/31/19	19-508	Capital Programs and Finance and Administration (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 (CAMP) 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 CAMP 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, CAMP 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
Third 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
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
Third 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.	
1/8/2020	20-503	F&A	Same-Day Taxi Service	For future procurements, Internal Audit recommended that management assess the likelihood of competition. Internal Audit also recommended that management ensure compliance with policy and procedures (P&P) or revise the P&P accordingly.	Jul-20	Management agreed to comply with the recommendation and will conduct an industry workshop with potential vendors to assess the likelihood of competition in the future. Management will also revise the P&P to require that staff follow the competitive negotiated procurement procedures when single proposals are received.	
2/18/2020	20-501	F&A	Patch Management Program (PMP)	The auditors offered one recommendation to expand the PMP to address all other operating systems hardware, software, and peripherals, and to incorporate all devices into the PMP. The auditors also offered four recommendations to further enhance the PMP by formalizing plans to address patch vulnerabilities, removing obsolete operating systems and software from the network, restricting users from installing unauthorized software, and developing test scripts to ensure system functionality after implementation of a patch.	Aug-20	Management agreed with the recommendations and indicated that progress has been made, and efforts will continue, to implement these improvements.	

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

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Management Response
3/12/19	N/A	Planning Division and Finance and Administration	Measure M (M2) City Audits: Local Fair Share and Senior Mobility Program	Staff will review observations and make recommendations for Board of Directors (Board) action, as appropriate. Staff will also follow-up with cities to provide information on requirements and obtain revised expenditure reports, as applicable.	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 in April 2020. The cities of Santa Ana and Stanton were found ineligible pending the outcome of fiscal year (FY) 2018-19 agreed-upon procedures. Update March 2020: Audits of Stanton and Santa Ana for fiscal year FY 2018-19 were presented to the Board March 23, 2020. Both cities were found in compliance with Maintenance of Effort requirements of Measure M.