



July 10, 2024

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit

Subject: Fiscal Year 2023-24 Internal Audit Plan, Fourth Quarter Update

Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2023-24 Internal Audit Plan on July 24, 2023. This update is for the fourth quarter of the fiscal year.

Recommendation

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

Background

The Internal Audit Department (Internal Audit) 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 audits, investigations, and agreed-upon procedures reviews. Audits initiated by entities outside of OCTA are coordinated through Internal Audit.

Discussion

The OCTA Internal Audit Fiscal Year (FY) 2023-24 Internal Audit Plan (Plan), Attachment A, reflects the status of each audit project as of year-end. Staff

hours, as reflected in Attachment A, represent total hours available annually for audit activities and are budgeted by project as a preliminary estimate of the effort required to meet the audit objective. Actual hours available for audit activities exceeded budgeted hours by approximately 375 hours due primarily to a decrease in the number of hours consumed for Internal Audit administrative and training activities.

For the Plan year, Internal Audit completed 35 projects, including 15 audits, 16 price reviews, and four Buy America reviews. As of June 30, 2024, three internal audits are in process. These audit projects, along with the one contingency audit, will be carried over to the OCTA Internal Audit FY 2024-25 Plan.

During the fourth quarter, Internal Audit issued results of an audit of the design-build contract for the Interstate 405 Improvement Project. Based on the audit, oversight and invoice review controls were in place and invoices complied with contract provisions. One recommendation was made to improve documentation maintained in payment and project files. Management agreed to ensure complete files going forward.

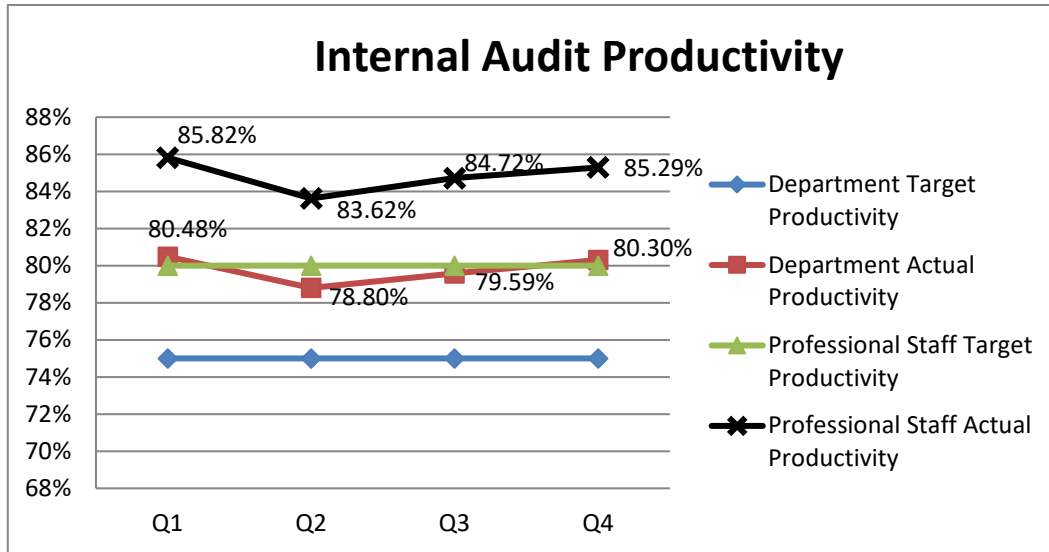
An audit of the flexible spending account program concluded that controls over employee enrollment, deductions, payments, and invoice processing are adequate and operating, and OCTA is complying with applicable Internal Revenue Service regulations. One recommendation was offered to implement controls to monitor the balance and activity of the custodial account held by WEX Health, Inc. Management agreed and indicated that a process for monitoring account transactions and balance will be implemented.

Also, during the quarter, Internal Audit provided results of an audit of liability claims management and found controls related to administration and management of general liability claims, and identification and management of subrogation claims, are adequate and functioning.

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. 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.

By the quarter ended June 30, 2024, Internal Audit had achieved cumulative productivity of 80 percent, and the professional staff achieved cumulative productivity of 85 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management (CAMM) Department, and consistent with OCTA’s procurement policy, Internal Audit conducts agreed-upon procedure reviews of single-bid procurements exceeding \$50,000, to ensure that CAMM handled the procurement in a fair and competitive manner. Internal Audit also performs agreed-upon procedure reviews of sole source contractor proposals exceeding \$50,000, and prices proposed by architectural and engineering firms exceeding \$150,000, 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 fourth quarter, Internal Audit completed three price reviews. For the year ended June 30, 2024, a total of 16 price reviews were issued.

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 June 30, 2024, no reports were received. A total of eight reports were received during the FY.

Outstanding Audit Recommendations Tracking

At the request of the Finance and Administration Committee, a listing of outstanding audit recommendations is included with the quarterly updates to the Plan as Attachment B.

For the quarter ended June 30, 2024, Internal Audit performed follow-up and closed out three outstanding recommendations, as reflected in Attachment C. Follow-up review of another nine outstanding recommendations is underway as of quarter-end. Two recommendations were added to the listing as a result of the audit of the design-build contract for the Interstate 405 Improvement Project and the audit of the flexible spending account program, summarized above.

Summary

The Orange County Transportation Authority Internal Audit Department Fiscal Year 2023-24 Internal Audit Plan is being closed out. Three projects that are in process, and one contingency project, have been carried forward to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2024-25 Internal Audit Plan. The Internal Audit Department will continue to perform follow-up of all outstanding findings and recommendations.

Attachments

- A. Orange County Transportation Authority Internal Audit Department Fiscal Year 2023-24 Internal Audit Plan, Fourth Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through June 30, 2024
- C. Audit Recommendations Closed During Fourth Quarter, Fiscal Year 2023-24

Approved by:



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

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

ATTACHMENT A

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 (AUP) Reviews	FY24-001 through FY24-004	Develop and issue a request for proposals and scope of work for an independent audit firm to conduct audits of the Orange County Transportation Authority (OCTA) and related entities. Coordinate and report on annual financial and AUP reviews for fiscal year (FY) 2022-23.	Financial	470	446	25	Complete
External Regulatory Audits	FY24-005	Coordinate and report on external audits by regulatory or funding agencies.	Compliance	40	44	(4)	2 Reports Issued
Internal Audit Department Projects							
Risk Assessment and Annual Audit Plan	FY24-100	Preparation of the annual audit plan, quarterly updates to the audit plan, and periodic assessment of risk throughout the year, including monitoring the audit results of related entities.	Audit Plan and Updates	180	175	5	Complete
Quality Assurance and Self-Assessment	FY24-101	Update of Internal Audit Policies & Procedures. Annual self-assessment of the Internal Audit Department's (Internal Audit) compliance with Generally Accepted Government Auditing Standards.	Quality Assurance	180	81	99	Complete
Fraud Hotline Activities	FY24-102	Administrative duties related to maintenance of the OCTA Fraud Hotline and work related to investigations of reports of fraud, waste, or abuse.	Fraud Hotline	120	166	(46)	8 Reports Received
Automated Workpaper Solution	FY24-103	System updates/training related to automated workpaper solution.	Workpaper System	40	23	18	
Internal Audits							
Express Lanes Program							
Operations and Management	FY24-508	Assess and test selected oversight, contract compliance, and/or invoice review controls related to the provision of services by Cofiroute USA, LLP.	Operational/ Compliance	340	294	46	In Process
Security and Emergency Preparedness							
Transit Police Services	FY24-503	Assess and test selected oversight, contract compliance, performance reporting, and/or invoice review controls related to the agreement for provision of Transit Police Services.	Operational/ Compliance	280	297	(17)	Complete 12-5-23

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Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
People and Community Engagement							
Life Insurance Benefits	FY23-505	Assess and test policies, procedures, and controls over administration of employee life insurance benefits.	Operational	26	12	14	Complete 8-7-23
Bus Advertising Revenue	FY23-516	Assess and test oversight and contract compliance controls related to the agreement for bus advertising.	Operational/ Compliance	120	149	(29)	Complete 8-31-23
Liability Claims Management	FY24-510	Assess and test controls related to administration and management of liability claims.	Operational	320	253	67	Complete 5-23-24
Flexible Spending Accounts	FY24-511	Assess and test controls over the administration of employee flexible spending accounts.	Internal Control/ Compliance	200	333	(133)	Complete 5-29-24
College Pass Program	FY24-506	Assess and test oversight, compliance, and performance of the College Pass Program.	Operational	220	367	(147)	Complete 3-11-24
Capital Programs							
Anaheim Canyon Station Improvements	FY23-515	Assess and test oversight controls, contract compliance, and invoice review controls related to the Anaheim Canyon Station Improvements Project.	Internal Control/ Compliance	80	93	(13)	Complete 8-31-23
OC 405 Partners	FY24-507	Assess and test oversight controls, contract compliance, and invoice review controls related to the OC 405 design-build project.	Internal Control/ Compliance	360	464	(104)	Complete 4-9-24
Operations							
OC ACCESS Service	FY24-512	Assess adequacy of oversight controls and test oversight, contract compliance, and invoice review controls related to the agreement with First Transit/TransDev for OC ACCESS transportation services.	Operational/ Compliance	320	294	26	In Process
Regional Center of Orange County	FY24-502	Assess and test controls related to administration and operation of the agreements with Regional Center of Orange County and My Day Counts relating to transportation services.	Internal Control/ Operational	280	274	6	Complete 11-14-23
OC Vanpool Program	FY24-505	Assess and test controls and compliance related to the administration of the OC Vanpool Program.	Operational/ Compliance	180	236	(56)	Complete 1-18-24

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Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
Finance and Administration							
Treasury	FY24-501, FY24-509	Semi-annual review of investments: compliance, controls, and reporting.	Compliance	250	446	(196)	2 Reports Issued
Accounts Payable	FY23-504	Assess and test controls over accounts payable operations.	Operational	320	513	(193)	Complete 1-15-24
Revenue Agreements	FY24-513	Assess and test controls over identification, tracking, and reporting of external revenue agreements.	Operational	280	102	178	In Process
Cybersecurity	FY23-509	Design a scope of work and procure an audit consultant to evaluate OCTA's Cybersecurity program.	Internal Control/Operational	8		8	Complete 5-31-23
OCTA Store Operations	FY24-504	Assess and test OCTA Store operations to ensure adequate controls are in place to safeguard assets.	Internal Control/Operational	280	164	116	Complete 10-26-23
Price Reviews	PR24-XXX	As requested by the Contracts Administration and Materials Management (CAMM) Department, apply AUP to sole source, single bid, and architectural and engineering firm proposals.	Price Review	800	696	105	16 Reports Issued
Buy America	FY24-5XX	As requested by the CAMM Department, apply AUP to determine compliance with Buy America requirements.	Buy America	300	391	(91)	4 Reports Issued
Unscheduled Reviews and Special Requests							
Unscheduled Reviews and Special Requests	FY24-800	Time allowed for unplanned audits and requests from the Board of Directors (Board) or management.	Varies	200	39	161	

**Orange County Transportation Authority
Internal Audit Department
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Fourth Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
Monitoring Activities							
Measure M2 Taxpayer Oversight Committee (TOC)	FY24-601	Coordination of audit activities on behalf of the Audit Subcommittee of the TOC.	Administrative Support	60	77	(17)	
Metrolink Audit Activities	FY24-602	Review/monitor audit results of Metrolink activities. Participate in selection of independent auditing firm.	Non-Audit Service	10	26	(16)	
Bus Base Inspections	FY24-603	At the request of the Operations Division, participate in annual base inspections.	Non-Audit Service	80	43	37	Complete
Capital Asset Inventory Observation	FY24-604	At the request of the Finance and Administration Department, observe and apply limited procedures related to the bi-annual capital asset inventory counts.	Non-Audit Service	60	88	(28)	
Follow-Up Reviews							
Follow-Up Reviews and Reporting	FY24-700	Follow-up on the status of management's implementation of audit recommendations.	Follow-Up	280	471	(191)	
Total Audit Project Planned Hours (A)				6,684	7053	(369)	

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2023-24 Internal Audit Plan
Fourth 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	135		
Executive Steering and Agenda Setting Meetings				170	118		
Internal Audit Staff Meetings				150	91		
Other Administration				1,500	1393		
			Total Hours (B)	8,684	8789		
			Department Target Efficiency (A/B)	75%	80%		
			Target Efficiency - Professional Staff	80%	85%		

Contingency: Internal Audit

Project Controls	FY24-5XX	Assess the adequacy and effectiveness of internal controls over payment processing and project oversight exercised by the Project Controls section of Capital Programs.
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**Outstanding Audit Recommendations
Audit Reports Issued Through
June 30, 2024**

ATTACHMENT B

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
1/26/22	21-511	Executive Office	Physical Access Security	The Internal Audit Department (Internal Audit) recommends the Security and Emergency Preparedness (SEP) Department management develop, maintain, and test a comprehensive, appropriate, and up-to-date set of physical security plans, policies, and procedures. A written Access Control Policy and related procedures should be developed and published, and management should address requirements included in the Physical Security Policy for implementing gate controls at all facilities. Finally, management should implement a regular training program to inform employees as to security policies, procedures, and protocols.	Jul-24	Management will work to document all processes and review assigned policies. SEP will make updates to the Physical Security Policy to address gate controls and create a Physical Access Control Policy. These updates will be completed by June 30, 2022. A "Record of Changes" section has been added to security plans to document reviews and updates. Management has hired a consultant to review the Orange County Transportation Authority's (OCTA) policies, procedures, and security plans. The consultant will provide recommendations on program improvements, conduct a new Threat and Vulnerability Assessment, provide a new written security plan, and create a security training program to include curriculums for all employees. Management will implement a training program within 12 months.	<u>Update August 2022</u> : Updates to security plans, policies, and procedures have not yet been prepared and are expected to be completed between August and December 2022. <u>Update March 2023</u> : Certain policy updates are in process. Development of an updated Master Security Plan (MSP) has been delayed and is now expected to be complete by the end of 2023. <u>Update September 2023</u> : Significant progress has been made; however, development of a MSP and a physical security training program are not yet complete. The contractor has experienced delays in producing these deliverables. <u>Update March 2024</u> : A final draft of the MSP was delivered in November 2023 but has not been finalized, and signed/accepted by the Chief Executive Officer. A training program has been implemented starting in the first quarter of 2024.
1/26/22	21-511	Executive Office	Physical Access Security	Internal Audit recommends management develop and implement written policies, procedures, and protocols that address the timely issuance, termination, and use of badges. These procedures should be referenced in contracts with Contracted Transportation Services (CTS) providers and be communicated to OCTA staff. Management should also ensure secondary controls are operating as intended.	Jul-24	Management is reviewing the issuance and termination of access badges in order to document processes. Management will work with other departments, including CTS, to advise of procedures for issuing and terminating access badges and encourage those departments to include procedures in their contracts, as appropriate. Additionally, management is currently reviewing and documenting procedures to ensure secondary controls are being utilized. Review and updating of procedures will conclude with the creation of a new Physical Access Policy to be completed by June 30, 2022.	<u>Update August 2022</u> : Management has not yet developed policies, procedures, and protocols to address timely issuance, termination, and use of access badges coordinated through OCTA. An Access Control Policy was originally expected to be completed by June 30, 2022, but has taken longer than expected due to the need to update the Physical Security Policy first. <u>Update March 2023</u> : Management expects an updated Access Control Policy (Policy) to be completed soon, and updates to agreements with CTS providers are in process. <u>September 2023</u> : Significant progress has been made; however, monitoring controls outlined in the newly-developed Policy have not yet been implemented. <u>Update March 2024</u> : Monitoring controls related to access control have been implemented; however, improvement is needed.

**Outstanding Audit Recommendations
Audit Reports Issued Through
June 30, 2024**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
2/9/22	21-507	Operations Division (Operations)	Facilities Maintenance (FM) Operations	Internal Audit recommends management implement a perpetual inventory system to track purchasing activity and maintain inventory of all parts and supplies. Purchasing, storage, issuance, and disposal activities should be centralized and include controls to ensure proper authorization for purchases, physical security of inventory items, and proper assignment of costs to work orders.	Aug-24	FM contracts for parts and supplies will be transferred to the Contracts Administration and Materials Management (CAMM) Department by July 2022. By February 2023, FM parts and supplies stored outside of CAMM's control will be brought into the inventory system for proper storage and issuance. The current Enterprise Asset Management (EAM) system is not capable of assigning all costs to FM work orders; however, a new EAM system is being implemented and should be capable of properly assigning costs to work orders. The new EAM system is estimated to be fully implemented in mid-2023.	<u>Update September 2022</u> : Management has completed transferring contracts to CAMM and a process to bring FM parts inventory into CAMM for proper storage and issuance has been established and is on track to be completed by February 2023. As stated in the original response, the current asset management system is not capable of assigning all costs to work orders. A new system will be implemented in mid-2023. <u>Update March 2023</u> : Management is still in the process of implementing a centralized inventory system and expects that physical transfer of all inventory may take up to two years. <u>Updated August 2023</u> : Management is still in the process of transferring parts inventory to centralized CAMM control. <u>Update March 2024</u> : FM inventory for three bases has been transferred to centralized inventory. Transfer of inventory from the remaining two bases is expected to take six months to a year.
2/9/22	21-507	Operations and Finance and Administration (F&A) Division	FM Operations	Management should enhance its invoice review process to ensure compliance with OCTA's Vendor Payment Policy and contract payment terms. Vendor mark-ups should be discontinued from time-and-expense contracts. For contracts related to the purchase of parts and materials only, any items not listed on the price summary sheet should include supporting cost documentation. If mark-ups are to be allowed on parts-and-materials contracts, the proposed mark-ups should be incorporated into the evaluation of costs during the vendor selection process.	Aug-24	Management will immediately begin working on enhancing the current invoice cover page to include a checklist that will require acknowledgement of review for sufficient detail as to quantity and rates of costs and justification. To address the issue of providing sufficient detail and complying with contract terms, the checklist being developed will improve oversight. In terms of discontinuing vendor mark-ups in time-and-expense contracts, management will work with CAMM to develop a solution that will address the issue of vendor mark-ups as well as incorporating an evaluation of cost, if mark-ups are allowed, during the vendor selection process.	<u>Update September 2022</u> : Management has enhanced the invoice checklist to include review for sufficient detail as to quantity and rates. CAMM has implemented an evaluation methodology to assign a percentage of the cost score for items not listed on the price summary sheet. Management and CAMM continue to explore options including discounts from price sheets and using fair market values to justify and validate price mark-ups. <u>Update March 2023</u> : FM has enhanced its invoice review; however, CAMM staff needs to enhance its review of invoices for contracts that have been transferred to their control. <u>Update August 2023</u> : CAMM staff has implemented an invoice review checklist; however, Internal Audit identified some payments that do not comply with contract terms and some vendors that do not have published list prices, required in order to validate discounts. <u>Update March 2024</u> : CAMM has hired a contract analyst to manage and review invoices and implement enhancements to invoice review.

**Outstanding Audit Recommendations
Audit Reports Issued Through
June 30, 2024**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
5/8/23	23-508	Planning Division (Planning)	Measure M2 Comprehensive Transportation Funding Programs (CTFP) Project Audits	Management should enforce timely use of funds requirements or obtain Board of Directors' (Board) approval for exceptions to CTFP guidelines.	May-24	Management will consider either clarifying guidelines or seeking Board action on a case-by-case basis.	<u>Update February 2024</u> : Management's response indicated that staff is currently conducting an off-cycle review to update timely use of funds requirements and contract award verbiage, and that presentation of the revisions to the Board has been delayed to spring 2024. <u>Update June 2024</u> : Follow-up in process.
5/8/23	23-508	Planning	Measure M2 CTFP Project Audits	Management should perform follow-up with the County of Orange (County) and the cities of Costa Mesa, Laguna Beach, and San Clemente on actions taken to address recommendations, including repayment of overcharges and duplicate charges by the City of Laguna Beach.	May-24	Direction to management provided in staff report. Management written response not required.	<u>Update February 2024</u> : Management response indicated staff was in communication with the City of Laguna Beach to recover amounts due related to overcharges and indirect cost charges and to recalculate indirect costs; however, no evidence of communication was provided and city staff indicated no communication have occurred. Follow-up with the County and other cities has been performed. <u>Update June 2024</u> : Follow-up in process.
5/31/23	22-513	F&A	OCTA's Cybersecurity Program	Management should adopt and implement a policy that governs asset management and associated activities.	Jul-24	Management agreed to develop and implement a policy.	<u>Update February 2024</u> : Management has drafted requirements of an asset management system and plans to utilize a module of the FreshService system which is currently being implemented. Once implemented, an Asset Management Policy should be developed and implemented by October 2025.
5/31/23	23-509	F&A	OCTA's Cybersecurity Program	Management should implement a comprehensive vulnerability management program that includes identifying, assessing, prioritizing, remediating, and/or documenting vulnerabilities as "accepted risks" in a timely manner.	Jul-24	Management agreed and indicated that the current Vulnerability Policy will be enhanced and all issues will be remediated or documented as "accepted risks" in a timely manner going forward.	<u>Update February 2024</u> : Management is working to build dashboards to identify vulnerabilities and a reporting system to monitor remediation efforts. Management estimates full implementation of this recommendation by June 2024.
5/31/23	23-509	F&A	OCTA's Cybersecurity Program	Management should update OCTA's Business Impact Analysis with direct input from the Cybersecurity Office and use results to inform the development, implementation, and maintenance of an updated Continuity of Operations Plan (COOP) and Disaster Recovery Plan (DRP), and test the DRP annually.	Jul-24	Management responded they are currently working with the SEP Department to review and update the COOP. Management plans to create playbooks to further improve the business continuity and disaster recovery processes to ensure business requirements are met.	<u>Update February 2024</u> : Management indicated that an initial portion of the disaster recovery runbook of core infrastructure applications has been completed and that a tabletop exercise of the incident response plan is planned for June 2024. Management will obtain an updated COOP and update its disaster systems recovery plans accordingly and implement annual testing of data and critical systems recovery by July 2024.

Outstanding Audit Recommendations
Audit Reports Issued Through
June 30, 2024

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
5/31/23	23-509	F&A	OCTA's Cybersecurity Program	Management should strengthen the data protection and privacy program by adopting a comprehensive policy, designating an individual to define and communicate data and privacy requirements, and perform user access reviews at least every 90 days for all internal employees and third party contractors that have OCTA user accounts and/or access to internal resources.	Jul-24	Management committed to implementing a comprehensive data protection and privacy program for all protected data and to designate the cybersecurity manager as the individual responsible to define and communicate data and privacy requirements. In addition, management agreed to implement user access reviews at least every 90 days.	<u>Update February 2024</u> : Management indicated they have begun, and will continue, to meet with departments that handle protected data to identify where the data is stored and who has access. Once completed, management plans to develop policies and processes to properly secure such data. In addition, management is working with Microsoft to implement a governance platform to control user access during the entire employment life cycle. Management estimates five percent progress to-date, with full implementation by April 30, 2025.
5/31/23	23-509	F&A	OCTA's Cybersecurity Program	Management should strengthen third-party security management by requiring third-party consultants working with OCTA data to be subject to the same training as OCTA employees and be required to acknowledge OCTA information technology and cybersecurity policies. In addition access reviews of these third-party consultants should be conducted.	Jul-24	Management agreed and proposed additional security queries of vendors on a periodic basis, as well as development and implementation of a process to ensure all consultants working with OCTA data receive cybersecurity training and follow the same policy requirements as OCTA employees.	<u>Update February 2024</u> : Management has compiled a list of third-party vendors, along with contact information for each, and has developed a questionnaire for distribution to vendors. The Information Systems (IS) cybersecurity team will review responses and follow-up accordingly. This process will be repeated annually. In addition, IS has implemented a process to ensure all consultants/vendors receive and acknowledge cybersecurity training prior to being granted credentials in OCTA. Management estimates 75 percent progress to-date and full completion by March 2024.
8/7/23	23-505	People and Community Engagement (PACE)	Life Insurance Benefits	Management should develop procedures to ensure that benefit entries into the payroll system are reviewed for accuracy and the monthly invoice process be enhanced to include reconciliation of premiums collected versus premiums paid.	Aug-24	Management agreed to enhance procedures to include the review of benefit entries and reconciliation of premiums collected versus premiums paid and investigate variances.	<u>Update February 2024</u> : Management responded that enhanced procedures have been implemented; however, since VOYA has not provided invoices for January and February 2024, Internal Audit was unable to confirm new procedures are being performed. As such, Internal Audit will follow up again in August 2024.

**Outstanding Audit Recommendations
Audit Reports Issued Through
June 30, 2024**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
8/7/23	23-505	PACE	Life Insurance Benefits	Management should implement controls to properly coordinate the timing of annual premium updates and calculation and processing of invoices to ensure accuracy. Additionally, management should reconcile the employee payroll deductions for supplemental life insurance with the payroll system data detailing premiums paid to VOYA and investigate any variances	Aug-24	Management indicated they would implement controls for timely annual premium updates and reconcile payroll deductions to premiums paid.	<u>Update February 2024</u> : Management responded that controls to ensure timely system updates have been implemented and will reconcile premiums to payroll deductions; however, since VOYA has not provided invoices for January and February 2024, Internal Audit was unable to confirm new control procedures are being performed. As such, Internal Audit will follow up again in August 2024.
8/31/23	23-516	PACE	Bus Advertising Revenue Program	Management should implement controls to verify accurate and complete reporting of revenues, enforce reporting requirements, monitor free advertisements, and require the contractor to certify statements and the project manager to document reviews.	Aug-24	Management agreed to implement oversight procedures effective December 1, 2023.	<u>Update March 2024</u> : The project manager now verifies that remittances include required certification language and details as to bonuses. Also, management has documented procedures for a semi-annual verification of a sample of underlying advertising contracts. However, since these procedures have not yet been implemented, Internal Audit will follow-up again in six months to confirm procedures.
11/14/23	24-502	Operations and F&A	Cooperative Agreements with Regional Center of Orange County (RCOC) and My Day Counts (MDC)	Management should implement procedures to investigate and take action to address RCOC disputed trips and ensure timely submission and receipt of payments and related credit memos. Accounts Receivable (AR) staff should communicate with RCOC to obtain sufficient information to ensure payments are accurately recorded, remaining errors are corrected, and input a due date on invoices. AR staff should also establish a process to monitor and collect overdue balances.	May-24	RCOC billing procedures have been improved and disputed trips are now investigated and reconciled. The new process includes a tracking log to ensure timely submission of invoice requests. The new process should eliminate the need for credit memos. AR staff will communicate directly with RCOC to correct remaining errors and ensure due dates are included on all future invoices. Staff has also established a process for monitoring overdue balances and notifying project managers accordingly.	Follow-up in process.

**Outstanding Audit Recommendations
Audit Reports Issued Through
June 30, 2024**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
11/14/23	24-502	Operations	Cooperative Agreements with RCOC and MDC	Management should reconsider the current arrangement with MDC and, if continued, should amend contracts with RCOC and MDC to obligate RCOC to pay OCTA for pass-through amounts and to ensure disputed amounts are charged to MDC. Evaluation of per-trip subsidy amounts should include consideration of the pass-through payments going forward. Also, pass-through payment arrangements should be approved by the Board going forward. Management should also consider recovering from MDC amounts paid by OCTA for which RCOC reimbursement was not obtained.	May-24	The agreement with MDC will expire in June 2024 and staff will reconsider the pass-through arrangement at that time, as well as, ensure pass-through payments, if continued, are considered when evaluating the subsidy amount provided by OCTA. The new agreement will be subject to Board approval. Management has also revised billing procedures for pass-through trips to ensure disputed trips are deducted from payments to MDC; however, management has determined there is no contractual support to recover from MDC amounts for pass-through trips paid for by OCTA and disputed by RCOC.	Follow-up in process.
11/14/23	24-502	Operations and F&A	Cooperative Agreements with RCOC and MDC	Accounts Payable (AP) staff should ensure that invoices are properly authorized and verify that invoices are applied to the current agreement, and AR staff should ensure invoices are created against the current agreement. Operations should review invoices from MDC and reconcile trips before submitting invoices for payment.	May-24	AP staff will be provided refresher training to ensure invoices processed include the required signature authority and are applied to active agreements and a system control has been implemented to warn staff if an invoice is posted to an expired agreement. Going forward, AR staff will ensure invoices are created against the correct agreement. Operations staff have improved billing procedures for MDC to ensure full reconciliation prior to invoicing.	Follow-up in process.
12/5/23	24-503	Executive Office	Transit Police Services (TPS)	Management should ensure annual work plans are developed and documented as required by the contract.	Jun-24	Management has begun compiling the annual work plan in conjunction with TPS and expects the plan to be published in March 2024.	Follow-up in process.

**Outstanding Audit Recommendations
Audit Reports Issued Through
June 30, 2024**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
12/5/23	24-503	Executive Office	TPS	Management should implement a process to evaluate, estimate, and document the methodology of assigning TPS costs on an annual basis. Management should also consider implementing a process to accumulate and report all costs of providing transit security.	Jun-24	Management will collaborate with the Orange County Sheriff's-Coroner Department to estimate and document contract costs on an annual basis. In addition, management will work with the Financial Planning and Analysis Department to ensure the ability for each department responsible for an aspect of providing or supporting TPS, to accumulate and consolidate transit security costs for a better understanding of the overall cost of transit security. Management will work with Financial Planning and Analysis to consolidate TPS associated costs and reporting by July 2024.	Follow-up in process.
12/5/23	24-503	Executive Office	TPS	Management should implement procedures to document agreements for enhanced services, including the type, time, and place of services, and obtain a cost estimate for services. Management should reconcile invoices for special services to these documents and obtain support, or include in the contract, the rates to be charged prior to authorizing payment.	Jun-24	Management will establish procedures to better document the estimates, agreed cost, and occurrence of special services performed. Management will also seek rates for services to be documented in annual contract amendments moving forward with the 2024-2025 TPS contract amendment. Work should conclude by May 2024.	Follow-up in process.
12/5/23	24-503	Executive Office	TPS	Management should strengthen controls over canine-related expense tracking and ensure all eligible costs are identified and submitted for grant reimbursement. Management should also review fiscal year (FY) 2022-23 eligible expenses that were not submitted and request reimbursement.	Jun-24	Management has begun improvements to canine-related expense tracking and to establish an enhanced invoice review process. Once established, the process will improve oversight to ensure eligible costs are identified and submitted for grant reimbursement. Starting immediately, and to be completed by the end of February 2024, management will work with the grants team to review eligible expenses and attempt to recover expenses of \$13,129.29 for FY 2022-23.	Follow-up in process.

Outstanding Audit Recommendations
Audit Reports Issued Through
June 30, 2024

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
1/15/24	23-504	F&A	Accounts Payable Operations (A/P)	Management should separate the ability to create or edit vendors from the ability to process payments, require a Computer Access Request form for all user access requests, enhance the annual accounting system access review, and restrict the number of users granted administrative rights in the accounting system.	Jul-24	Management will separate the ability to create or edit vendors from the ability to process payments and will collaborate with the IS Department and create a new policy to strengthen controls over accounting system access.	
1/15/24	23-504	F&A	A/P	Management should review and update the Payment Request (PR) Policy, as necessary, and consider updating the PR form to include a checklist and details as to the types of allowable payments. Project managers should also be reminded of the proper use of PR's and staff should not process exceptions without approval.	Jul-24	Management will update the PR policy to enhance clarity and will update the PR form to ensure it is used in accordance with the PR policy. A/P staff have been reminded not to process exceptions without appropriate approval.	
3/11/24	24-506	PACE	College Pass Program	Agreements should be amended to accurately reflect all responsibilities and requirements for program operation, and management should enforce agreement requirements. Management should also develop, document, and implement procedures for administration of the program, including procedures for verifying the reasonableness of enrollment data provided by colleges for invoicing purposes and timely preparation of invoices. Management should implement procedures developed in December 2023, to monitor and collect outstanding receivables.	Sep-24	Management agrees that the agreements need to be more specific to each college, and procedures need to be formalized to administer the program beyond the pilot phase. Management will review and enhance agreement language by August 31, 2024. In addition, management will ensure the documentation and implementation of specific procedures for each aspect of program administration and will outline specific responsibility area(s) for program implementation and oversight by September 30, 2024.	
3/11/24	24-506	PACE	College Pass Program	Internal Audit recommends management update agreements to include requirements for security, inventory, distribution, and reporting of paper passes and implement monitoring controls to ensure colleges are complying with the requirements. Management should also strengthen controls to ensure all college bus passes are properly coded in the system.	Sep-24	Management will develop improved controls and a formal procedure for paper pass distribution to ensure proper security, accurate coding, reporting, and reconciliation, and amend agreements to include the procedures.	

**Outstanding Audit Recommendations
Audit Reports Issued Through
June 30, 2024**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
3/13/24	24-509	F&A	Investments: Compliance, Controls, and Reporting: July through December 31, 2023	Internal Audit recommends Treasury utilize month-end bank statements when preparing monthly reports.	Sep-24	Management will ensure that month-end bank statements are used for monthly reports.	
3/13/24	24-509	F&A	Investments: Compliance, Controls, and Reporting: July through December 31, 2023	Internal Audit recommends OCTA discontinue paying fees associated with accounts whose portfolio values are not automatically updated in the Clearwater system.	Sep-24	Management is actively addressing the issues pertaining to the subject accounts. The accounts have been removed from the Clearwater system until such time that a resolution is achieved.	
4/9/24	24-507	Capital Programs	Interstate 405 Improvement Project: Design-Build Contract	Internal Audit recommends that management file stop payment and release notices, daily extra work reports, and supporting tickets, and other supporting documentation with the invoice payment records. Also, management should ensure meeting minutes with sign-in sheets are consistently filed in the project files.	Oct-24	Management agrees and will work with F&A to include relevant supporting documents with invoice records going forward. Management will also ensure minutes and sign-in sheets are consistently filed with the project files.	
5/29/24	24-511	PACE	Flexible Spending Account Program	Management should implement a process for regular tracking of custodial account contributions, distributions, and running account balance and ensure the balance is updated for purposes of financial reporting.	Nov-24	Management will create a process to ensure the balance is updated and reported to accounting at the end of each fiscal year. In addition, a process will be established to regularly track account balance and activities.	

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

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Internal Audit Status Comments
11/20/23	Not Applicable	Planning	Investigation and Limited Scope Review of Comprehensive Transportation Funding Programs (CTFP) Scope Change for Project No. 20-HBCH-CBT-3960	Management should revise CTFP guidelines, with Board of Directors' (Board) approval, to add guidance as to acceptable scope and/or programming changes to Project V projects, and include criteria to be used in evaluating changes. Staff should conduct and document evaluation of scope changes prior to seeking Board approval, and ensure that defined requirements are met. Reprogrammed projects should be evaluated against projects as originally scored when funding was approved.	Internal Audit confirmed that revisions to CTFP guidelines addressing scope changes were presented to and approved by the Board on May 13, 2024.
11/20/23	Not Applicable	Planning	Investigation and Limited Scope Review of CTFP Scope Change for Project No. 20-HBCH-CBT-3960	Management should return to the Board with a clear description of the scope change action and its impact on future funding decisions, and request consideration of approval. Going forward, management should ensure accurate and complete communications with the Board.	Internal Audit confirmed that an updated description and explanation of the scope change action was included in the CTFP semi-annual review report approved by the Board on December 11, 2023.
6/5/23	23-513	F&A	Lost and Found Operations	Management should enhance controls to ensure found cash and checks/money orders received are properly recorded and reconciled to deposits and general ledger entries.	Internal Audit confirmed that management has implemented enhanced tracking features for auctioned items and reconciliation of check deposits.