

Outstanding Audit Findings and Recommendations
Audit Reports Issued through September 30, 2017

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Auditor	Notes
1/19/16	N/A	Transit	City of Santa Ana, Senior Mobility Program (SMP)	The Internal Audit Department (Internal Audit) recommends management: 1. Develop program guidelines, including definition of allowable trip types, requirements for revenue reporting, acceptable allocation of costs, and retention of supporting documentation. 2. Amend cooperative agreements to include detailed information on program requirements. 3. Provide training to cities and exercise oversight to ensure compliance with the Ordinance, cooperative agreements, and program guidelines.	Oct-17	Management will review and revise agreements for SMP to address the collection and recording of program fees/revenue. The SMP monthly report template will be revised to specifically document fares/revenue received, the source of city contributions, and documentation to identify how revenues collected are used to support the program. During the annual visit, staff will review the process used to collect and report fares/revenues received. <u>Update August 2016:</u> Management has addressed parts 1 and 2 of the recommendation. Since the new monitoring/site visits will not begin until September 2016, part 3 will remain open. <u>Update April 2017:</u> Management has provided training to cities and agencies and has performed site visits. However, since a few monitoring/site visit checklists were not filled out completely and accurately, and some of the supporting documents on file were not adequate to address the checklist items, Internal Audit will follow-up again in six months.	Ng	Initiate next update October 2017
2/29/16	FY15-515	Capital Programs	Oversight Controls, Contract Compliance, and Billings Related to the Bristol Street Widening-Project	Internal Audit recommends management request the City of Santa Ana (City) strengthen controls over timekeeping and periodically review supporting documentation to ensure accuracy of labor charges to the project. Management should also consider disallowing sub-consultant markups through update of contract language in cooperative agreements.	Mar-18	The gas tax agreement will be amended to require certification of quarterly reconciliation reports. Staff will review a sample of supporting documents to verify expenses. The agreement will also be amended to specifically disallow sub-consultant markups. <u>Update September 2016:</u> The amendment has not been executed due to the City's disagreement with certain terms. <u>Update January 2017:</u> Amendment No. 6 was executed to require that the quarterly reconciliation reports include supporting documentation, as well as certification that the City has deducted all sub-consultant markup costs. Since staff will begin periodically reviewing a sample of supporting documentation to verify labor and other costs charged now that the amendment is executed, Internal Audit will return in six months to assess staff's review of costs charged. <u>Update September 2017:</u> The City's cost support files do not include timesheets to support all labor charges. Internal Audit will return in six months to determine if the City is submitting all supporting documentation for labor charges and management is periodically reviewing such support.	Ng	Initiate next update in March 2018

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4/4/16	FY15-513	Finance and Administration (F&A), Capital Programs	Accounts Payable (AP)	Internal Audit recommends management provide training to ensure consistent enforcement of policies and procedures by AP staff and advise department staff responsible for the exceptions of OCTA's policies and procedures.	Jun-17	The AP supervisor meets bi-weekly with staff and has included training on AP procedures and responsibilities and has/will communicate to departments responsible for the related exceptions as to OCTA's Policies and Procedures. <u>Update January 2017:</u> During the course of the follow-up review, Internal Audit identified additional instances of violations of the Payment Request Policy and the Payment Authorization Policy. Four recommendations were made to F&A and Capital Programs related to the use of Payment Requests for payments against contracts for goods/services not authorized by the contract at the time the expenses were incurred. <u>Update September 2017:</u> Three of the four additional recommendations have been addressed. One recommendation related to authorization of Other Direct Costs will be reviewed again in December 2017.	Bonelli	Initiate next update March 2018
10/31/16	N/A	F&A	Fiscal Year 2015-16 Management Letter	Vavrinek, Trine, Day & Co. LLP auditors made four recommendations related to enhancements to information systems security.	Jan-18	Management responded that recommendations would be evaluated and implemented as appropriate.	Tang	In Process
1/4/17	FY17-502	F&A	Payment Card Industry/Data Security Standard (PCI-DSS) Compliance	Management should evaluate resources and controls to ensure full compliance and develop a proposal to achieve compliance and/or provide a reasonable approach moving forward. Management should implement oversight controls to assess the accuracy, timeliness, and sufficiency of Cofiroute USA's (Cofiroute) PCI DSS compliance information.	Feb-18	Management will take the following actions: (1) engage a third party PCI Security Assessor to perform Self-Assessment Questionnaires (SAQ) going forward; (2) assess the remediation items identified in the SAQ and address items that fall into existing security improvement efforts; (3) perform a yearly assessment of Cofiroute's PCI DSS compliance information; (4) undergo a review to determine if OCTA should take the steps necessary to become fully PCI compliant; (5) continue to allocate and prioritize resources to cybersecurity risks while addressing PCI compliance concerns. <u>Update August 2017:</u> Management has not achieved compliance or fully implemented an approach to address non-compliance.	Dunning	Initiate next update Feb 2018

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1/4/17	FY17-502	F&A	PCI-DSS Compliance	Management should implement procedures to ensure that quarterly network scans are performed and remediation efforts are identified and addressed accordingly. Management should also implement procedures for oversight and monitoring of Cofiroute's activities and incorporate their system scan results into submissions to American Express.	Feb-18	Management agrees with Internal Audit's recommendation and will implement procedures to ensure quarterly network scans are performed. Management will also identify items to be remediated and implement them based on risk and cost. Management will allocate resources to perform periodic assessments of Cofiroute's PCI DSS compliance information. <u>Update August 2017</u> : Quarterly scans are not performed and submitted as management continues to assign resources to areas of non-compliance.	Dunning	Initiate next update Feb 2018
2/15/17	FY16-509	F&A	Budget Development, Monitoring, and Reporting	Procedures should be developed and documented for the budget development and transfer processes. Management should also ensure project variances exceeding the threshold are investigated in accordance with the budget to actual reporting procedures, or alternatively clarify the investigation requirements in such procedures.	Jun-18	Management agrees with the recommendation and will re-evaluate and document all salary and benefit budget assumptions at a lower level of detail. Also, management will ensure project variances exceeding the threshold continue to be investigated in accordance with the budget to actual reporting procedures, and will clarify investigation requirements in such procedures. <u>Update October 2017</u> : Management has addressed the recommendations related to budget development and transfers. However, since changes to the budget to actual reporting procedures will be fully implemented in the first quarter, Internal Audit will follow up on this part of the recommendation by the end of the fiscal year.	Ng	Initiate next update by end of fiscal year
2/15/17	FY16-509	F&A	Budget Development, Monitoring, and Reporting	Management should implement procedures to ensure that changes to salary grade levels are based on reasonable and consistent methodologies and that documentation is maintained. Changes should also be communicated to management prior to seeking Board of Director (Board) approval.	Jun-18	Human Resources (HR) management will ensure that Personnel and Salary Resolution (P&SR) changes are communicated to management prior to seeking Board approval. During the budget process, salary grade level changes to the P&SR will be presented to the Executive Steering Committee prior to Board approval. Current documentation methods for classification salary grade changes will be reviewed to determine the best practice for documenting these actions. HR is in the process of obtaining a compensation and market salary data system. This system will be utilized to enhance data collection, consistency, and documentation. <u>Update June 2017</u> : Internal Audit found that recommended upgrades to a job family were not supported by the data collected and stated criteria and documentation supporting grade change recommendations requires improvement. As such, this recommendation will remain open.	Ng	Initiate next update June 2018

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2/15/17	FY16-509	F&A	Budget Development, Monitoring, and Reporting	Management should clarify the Position Control Policy (Policy) with regard to Board approved positions, develop procedures to ensure that the total number of employees does not exceed the Board-approved number, and obtain Chief Executive Officer (CEO)-approval for dual-filled positions. Management should also develop controls to ensure compliance with the Policy.	Jun-18	The Policy will be reviewed and revised to clarify the approval process by the OCTA Board. Current procedures will be reviewed to determine if further action is required to ensure the total number of employees do not exceed the Board approved number. In addition, recruitments that will result in a dual-fill will require the authorization of the CEO. <u>Update October 2017:</u> Since revisions to the Policy have not been finalized, Internal Audit will keep this recommendation open and return by the end of the fiscal year.	Ng	Initiate next update June 2018
2/15/17	FY16-509	F&A	Budget Development, Monitoring, and Reporting	Actual budgeted amounts should be shown on the Sole Source List. For services that could be performed by multiple vendors, the budget package should provide an explanation and justification for using the selected vendors.	Jun-18	Management agrees with Internal Audit's recommendation and will show the actual budgeted amount for software and hardware maintenance when the Sole Source List is presented to the Board for approval. Management also will develop a budget justification for emergency malware support in the budget package. <u>Update October 2017:</u> Management added the budget amounts to the Sole Source List in accordance with the first part of the recommendation. However, management did not address the second part of the recommendation, regarding the explanations and justifications for using the selected emergency malware support vendors. We will return at the end of the fiscal year to follow-up on the second part of the recommendation.	Ng	Initiate next update June 2018
3/8/17	N/A	Planning, Transit	Measure M Agreed-Upon Procedures Reports	Staff should monitor implementation of auditor recommendations included in the Measure M Agreed-Upon Procedures Reports.	Sep-17	<u>Note:</u> Multiple recommendations were made to the County of Orange (County) and several cities related to the Local Fair Share, Senior Mobility Program, and Senior Non-Emergency Medical Transportation Program. The County and city management responses are included with the reports and follow-up with the County and applicable cities will be performed by OCTA staff.	Sutter	In Process

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3/9/17	FY17-507	F&A	Orange County Transportation Authority (OCTA) Policies & Procedures	Management should update procedures to include a communications plan to ensure that employees expected to comply with policies are properly notified. Communication should occur, as appropriate, for both new and revised policies.	Sep-17	Management agrees with the recommendation and has taken steps to ensure communication is made to all employees when new policies are created or existing policies are updated.	Dunning	In Process
3/9/17	FY17-507	F&A	OCTA Policies & Procedures	Management should implement procedures to notify division management of expiring policies. Follow-up should be performed to ensure policies are reviewed and updated in a timely manner.	Sep-17	Management agrees with the recommendation and will take steps to ensure that policies are updated on the mandated two year cycle.	Dunning	In Process
3/9/17	FY17-507	F&A	OCTA Policies & Procedures	Management should implement controls to help ensure the accuracy and completeness of the master list of policies and procedures.	Sep-17	Management agrees with the recommendation and will implement procedures to ensure that the master list of policies and procedures is maintained with accuracy and completeness.	Dunning	In Process

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4/12/17	FY17-504	F&A	Investment Management Service Contracts	Management should ensure compliance with procurement policies and ensure that decisions to accept deviations from the Request for Proposal (RFP) are documented, along with the calculations and methodologies used when cost estimates are prepared by staff. Documentation on file should justify the reasons for changes to the RFP after proposals are received and the value of the cost proposal estimate should translate to the value of the contract issued. Finally, management should consider developing a policy with guidelines for the use of OCTA's logo by vendors, staff-provided testimonials, or staff participation in vendor case studies for marketing purposes.	Oct-17	The Contracts Administration and Materials Management Department (CAMP) will ensure an Independent Cost Estimate is provided as required and will re-enforce this requirement with staff during meetings and training exercises. Likewise, CAMP will remind staff that project managers may not conduct direct negotiations without CAMP staff being present. If the evaluation committee recommends for award a pricing model and methodology that differs from the RFP, the contract administrator will be required to clearly indicate such in the procurement memo along with the reason for the recommendation. CAMP management will ensure that staff understands the need for documentation which demonstrates the method for calculating final pricing as well as how the pricing criteria was scored. Additionally, contracts will be issued consistent with the cost estimate on file. Documentation will be required in the contract file if a contract is issued in an amount that varies greatly from the cost estimate. Lastly, management agrees to consider developing a policy with guidelines for the use of OCTA's logo by vendors, staff-provided testimonials, or staff participation in vendor case studies for marketing purposes.	Tang	In Process
4/12/17	FY17-504	F&A	Investment Management Service Contracts	Internal Audit recommends that management review and update the investment management agreements to include appropriate and applicable contract clauses.	Oct-17	CAMP agrees to work with the Treasury Department to review the current investment manager agreements and update them to include applicable clauses.	Tang	In Process
8/1/17	FY17-505	Human Resources and Organizational Development (HROD)	Storm Water Pollution Prevention Plan (SWPPP)	Continue efforts to eliminate the unauthorized non-storm water discharges related to the bus washes.	Feb-18	Bus wash water track-out capturing systems are expected to be finished and operable by August 2017.	Bonelli	
8/1/17	FY17-505	HROD	SWPPP	Continue efforts to expand the use of the Ellipse system to include additional storm water-related tasks.	Feb-18	Current Ellipse work orders related to storm water pollution prevention have been updated and modified. New expanded work orders will be established within Ellipse by August 2017.	Bonelli	

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8/1/17	FY17-505	Capital Programs	SWPPP	Enhance oversight of contractors and personnel carrying out SWPPP related monitoring activities, particularly related to site inspections, sampling, reporting, etc. OCTA should also ensure that agreements with contractors tasked with SWPPP activities include retention requirements.	Feb-18	Enhanced oversight of contractors and construction management teams will be implemented and monitored. OCTA will ensure current and future agreements with contractors include retention requirements.	Bonelli	
8/1/17	FY17-505	HROD	SWPPP	Ensure that a copy of the SWPPP is maintained at each bus base facility.	Feb-18	Hard copies of SWPPP will be maintained at each bus base facility in addition to electronic copies. Each hard copy will be singularly identifiable and OCTA SWPPP members will be notified/trained of their locations.	Bonelli	
8/1/17	FY17-505	HROD	SWPPP	Increase the Health, Safety, and Environmental Compliance (HSEC) group's participation with construction projects and activities to help ensure compliance with the Construction General Permit	Feb-18	HSEC will continue to participate in CGP compliance efforts and will identify/allocate necessary resources to ensure compliance with the CGP in partnership with OCTA's Capital Programs group via project planning efforts.	Bonelli	
8/1/17	FY17-505	Capital Programs	SWPPP	Ensure cooperative agreements specifically clarify the roles and responsibilities of all individuals and entities associated with compliance with the CGP.	Feb-18	Management doesn't agree that the roles and responsibilities of all individuals and entities should be included in the Cooperative Agreements. However, management will implement a procedure to document these roles and responsibilities in a project memo.	Bonelli	
8/1/17	FY17-505	HROD	SWPPP	Establish a formal process in which technicians maintain documentation supporting why samples could not be collected during a sampling period.	Feb-18	Monitoring forms used by technicians will be revised to provide supporting documentation/verbiage on why samples could not be collected during a qualified sampling event.	Bonelli	
8/1/17	FY17-505	Capital Programs	SWPPP	Ensure contractors adhere to training required by the CGP by periodically requesting to review training records.	Feb-18	Periodic reviews of training records will be implemented.	Bonelli	

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8/1/17	FY17-505	HROD	SWPPP	Document in the SWPPPs the time periods when the bus bases conduct any function related to industrial activity.	Feb-18	SWPPPs will be revised to describe time periods when bus bases conduct industrial activity. Maintenance staff will be included as SWPPP team members.	Bonelli	
8/1/17	FY17-505	HROD	SWPPP	Document the date that each SWPPP was initially prepared.	Feb-18	SWPPPs will be revised to include the date that each SWPPP were initially prepared.	Bonelli	
8/30/17	FY17-508	F&A	Contracted Fixed-Route Operations	Internal Audit recommends that CAMM develop procedures for monitoring of performance bond requirements and certificates of insurance to ensure that performance bonds are appropriately adjusted with amendments and insurance requirements are met.	Mar-18	CAMM concurs with this recommendation and has taken steps proactively to review and track bond and insurance documentation for compliance to ensure contract requirements are met. OCTA's Risk Management department recently procured insurance brokerage services and the scope of work includes a requirement for insurance review and certificate tracking system for all contracts. OCTA will seek to include an additional feature related to monitoring bond value adjustments as an enhancement to this service.	Ng	
8/30/17	FY17-508	Transit	Contracted Fixed-Route Operations	Internal Audit recommends management reconcile accident reports to monthly reports and develop procedures for progressive enforcement actions to be taken when contract requirements are not being met.	Mar-18	Management agrees to conduct a monthly reconciliation of accident reports. To ensure that contract language permits reimbursement regardless of when the work is initiated, management proposes a modification in the contract language to remove the requirement for OCTA's pre-approval and reflect the process used: "The contractor will not be reimbursed for the replacement or repair of any major mechanical components without the written approval of OCTA's project manager or his/her designee." For unclassified revenue, a process is already in place to monitor unclassified revenue on a weekly and monthly basis and management feels that including documentation related to the oversight including follow-up actions taken with the monthly invoice package would be a valuable addition.	Ng	

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8/30/17	FY17-508	Transit	Contracted Fixed-Route Operations	Internal Audit recommends that management consistently apply penalties as outlined in the contract. Any request to waive a penalty should be documented and accompanied by adequate documentation to support and justify how the failures could not have reasonably been prevented.	Mar-18	Management agrees with the finding and will amend the contract to allow for appropriate discretion with regard to penalty waivers. In the future, documentation, including a written request from the contractor and justification for the action, will be maintained.	Ng	
8/30/17	FY17-508	Transit	Contracted Fixed-Route Operations	Internal Audit recommends that management consistently apply penalties and consider non-payment of revenue hours for vehicles that have exceeded preventive maintenance intervals. Penalties should only be waived at the request of First Transit and with adequate justification and documentation demonstrating that the failures could not have reasonably been prevented. Finally, management should implement a secondary review of incentives and penalties during the invoice review process to determine that they are consistent with the contract.	Mar-18	Management agrees with the finding and will implement more consistent application of penalties; however, the contract will also be amended to allow for appropriate discretion with regard to penalty waivers. In the future, documentation, including a written request from the contractor and justification for the action, will be maintained. Management will coordinate a monthly meeting to review invoice penalty and incentive amounts for accuracy prior to payment.	Ng	

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8/30/17	FY17-508	Transit	Contracted Fixed-Route Operations	Internal Audit recommends that contracted fixed route performance standards be measured consistent with the standards set forth in the contract. Management should implement procedures to ensure changes to performance standards are processed as formal contract amendments and that notice and justification for the changes is documented. Management should also consider implementing procedures that require Board notification and/or approval for changes to contracted fixed route performance standards. At a minimum, presentations and performance reports provided to the Board should clearly outline changes to the measurement standards and/or methodology.	Mar-18	Management agrees with the finding. The on-time performance window as measured and reported through the automated systems on-board all fixed route vehicles has been adjusted to reflect a zero to five minute window. This change has been made retroactive back to February 2016 when the change to five minutes, 30 seconds was implemented. Future quarterly performance measure reports will outline the methodologies used to collect data and if methodologies change, the report will identify the change.	Ng	

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8/30/17	FY17-508	F&A	Contracted Fixed-Route Operations	<p>Internal Audit recommends that the Price Summary be amended as needed to accurately reflect the agreed-upon rates and costs that will be invoiced to the contract. If rates or costs increase due to additional service added in amendments, the amendments should include a revised Price Summary. Management should also ensure that the increases in maximum obligations be calculated correctly based only on additional costs that will be incurred, without double-counting of costs.</p> <p>Finally, Internal Audit recommends that CAMM review all RFP addendums to determine if there have been changes in attachments and exhibits, before finalizing contracts.</p>	Mar-18	<p>Management concurs that the Price Summary be amended to capture the agreed-upon rates associated with each added service to the contract. Management will ensure the Price Summary is revised to reflect any future costs for additional services.</p> <p>CAMM's standard practice when conforming agreements is to review all RFP addendums to ensure all technical and contractual changes are incorporated in the final agreement. For added quality assurance, conformed agreements are sent to the requesting departments for review and concurrence prior to contract final execution.</p>	Ng	
8/30/17	FY18-501	F&A	Investments: Compliance, Controls, and Reporting	<p>Internal Audit identified a discrepancy between the detailed investment portfolio listing and the investment summary report in the 2017 First Quarter Debt and Investment Report. Also, the Orange County Investment Pool balance reflected in the Second Quarter 2017 Debt and Investment Report was misstated by a minor amount. Internal Audit recommended management enhance review procedures to ensure line items are validated and schedules are reconciled before finalizing the report.</p>	Mar-18	<p>Management agreed and indicated that reconciliation procedures would be developed.</p>	Tang	

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9/27/17	FY18-502	Capital Programs	Right-of-Way Acquisition Activities for the Interstate 405 (I-405) Project K	Internal Audit recommends that management develop written procedures for the reporting of administrative settlements and contracts executed under the Incentive Payment Program (Program) for the I-405 Project. The procedures should identify the frequency and method of reporting.	Mar-18	The Real Property Department has drafted a written procedure for the reporting of administrative settlements and contracts executed under the Program for the I-405 Project. The procedure identifies the frequency and method of reporting and includes two exhibits illustrating the format of each report. The I-405 Modified Settlement Delegation Authority Administrative Settlements Authorized Report format will now reflect the appraisal amount, additional compensation amount, total contract amount, and the calculated percentage of the settlement.	Ng	