



January 11, 2017

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer
Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2015-16 Management Letter

Overview

In connection with the annual audit of the Orange County Transportation Authority's financial statements, schedules, and agreements for fiscal year 2015-16, Vavrinek, Trine, Day & Company, LLP, has issued a management letter with four recommendations for improvement to internal controls.

Recommendations

- A. Receive and file the Orange County Transportation Authority Management Letter June 30, 2016.
- B. Direct staff to implement auditor recommendations related to the information technology environment.

Background

Pursuant to Section 28770 of the Public Utilities Code, the Orange County Transportation Authority (OCTA) prepares an annual set of financial statements presenting OCTA's results of operations and financial position at fiscal year-end. OCTA is required to obtain an independent auditor's opinion on the Comprehensive Annual Financial Report (CAFR), as well as various fund financial statements, schedules, and agreements. The audit was performed by Vavrinek, Trine, Day and Company, LLP (VTD), an independent accounting firm. In connection with the audit, VTD has issued a management letter, as required by the American Institute of Certified Public Accountants (AICPA), *Statement on Auditing Standards Number 115*.

Discussion

VTD has completed annual audits of OCTA's CAFR and various fund financial statements, schedules, and agreements and has issued an independent auditor's opinion thereon for the fiscal year (FY) ended June 30, 2016. In connection with the audit, VTD has issued a management letter identifying four control deficiencies as defined by the AICPA, *Statement on Auditing Standards Number 115*.

The auditors recommended that management establish a more sustainable patch management framework for the Information Technology environment. Specifically, a formal implementation plan, including an assessment of required resources and a timeline was recommended. Management agreed and indicated that staff is in discussions with Microsoft to possibly engage their services to streamline the software update management cycle and create a documented process to keep systems up to date with security patches. Additionally, management has increased resources to its cyber security team by adding a full-time position.

With regard to third party external penetration tests and internal vulnerability reports, the auditors recommended more frequent and extensive testing and timely corrective action. Also, the auditors recommended social engineering tests to strengthen the current employee education program. Management responded that the recommendations will be evaluated and procedures updated as appropriate.

While OCTA maintains documentation of business resumption and disaster recovery procedures, the auditors noted that "disaster recovery laptops" have not been established. The auditors recommended management consider establishing designated laptops as disaster recovery machines to aid in business resumption. In response, management expressed concern with using laptops for this purpose because of the potential that the machines could be stored away and not function properly when needed. Management indicated that processes would be put in place to set up and regularly test equipment for disaster recovery after an evaluation and identification of the best media to be used for this purpose.

Finally, the auditors recommended that management provide an email encryption portal or path for stakeholders and external partners to send emails to OCTA. Management indicated that this recommendation would be reviewed with relevant consultants for further guidance.

The management letter for FY 2015-16 is included herewith as Attachment A.

Summary

In connection with the annual audit of OCTA's financial statements for FY 2015-16, VTD has issued a management letter, which identified four recommendations for improvement to internal controls. Management has responded that these items will be addressed.

Attachment

- A. Orange County Transportation Authority Management Letter for the Year Ended June 30, 2016

Prepared by:

A handwritten signature in dark ink, appearing to read 'Janet Sutter', with a long horizontal flourish extending to the right.

Janet Sutter
Executive Director, Internal Audit
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