

Outstanding Audit Recommendations
Audit Reports Issued Through March 31, 2018

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
1/4/17	17-502	Finance and Administration (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.	Jan-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. <u>Management Response March 2018:</u> Management will make appropriate changes to the environment and be fully PCI compliant by September 30, 2018.	Management response under review by the Internal Audit Department (Internal Audit)
1/4/17	17-502	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.	Jan-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. <u>Management Response March 2018:</u> Management will be fully compliant with PCI scan requirements by September 30, 2018.	Management response under review by Internal Audit

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Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
2/15/17	16-509	Human Resources and Organizational Development (HROD)	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.	Sep-18	Human Resources (HR) management will ensure that Personnel and Salary Resolution (P&SR) changes are communicated to management prior to seeking Board approval. Current methods for 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 data collected and stated criteria and documentation supporting grade change recommendations requires improvement. As such, this recommendation will remain open. <u>Update March 2018:</u> Management has developed written procedures and procured a market salary survey system; however, proposed changes for Fiscal Year (FY) 2018-19 are still in process and the system has not yet been implemented. Internal Audit estimates management's progress toward addressing this recommendation is at 50%.	Initiate next update Sep 2018

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2/15/17	16-509	HROD	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.	Sep-18	The Policy will be reviewed and revised to clarify the approval process by OCTA's 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 FY. <u>Update March 2018:</u> Management has revised and clarified the Policy and CEO approval is obtained for dual-filled positions; however, there is no evidence of review to ensure that the Board-approved number of positions is not exceeded. Internal Audit estimates management's progress toward addressing this recommendation is at 67%.	Initiate next update Sep 2018

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2/15/17	16-509	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.	Sep-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. Update October 2017: 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 FY to follow-up on the second part of the recommendation. Update March 2018: The outstanding part of this recommendation will be addressed during the FY 2018-19 budget cycle. Internal Audit estimates management's progress toward addressing this recommendation is at 50%.	Initiate next update Sep 2018
8/30/17	17-508	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.	Feb-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. Management Response March 2018: Management has been working with the provider to set up a new system to review and track bond and insurance documentation for compliance, with an anticipated go-live date in March 2018.	Management response under review by Internal Audit

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Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Status
8/30/17	17-508	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.	Feb-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. <u>Management Response March 2018:</u> Management has drafted an accident reporting policy that includes the reconciliation of accident reports to monthly summary reports, as well as an unclassified revenue policy that details the process used to monitor unclassified revenue. Management has also drafted a contract amendment to revise the language for major maintenance.	Management response under review by Internal Audit
8/30/17	17-508	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.	Feb-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. <u>Management Response March 2018:</u> Management has developed a penalty policy to be used when the contractor requests a waiver for penalties. Language regarding this process is also included in the draft contract amendment.	Management response under review by Internal Audit

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8/30/17	17-508	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.	Feb-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 also coordinate a monthly meeting to review invoice penalty and incentive amounts for accuracy prior to payment. <u>Management Response March 2018:</u> Management had developed a penalty policy to be used when the contractor requests a waiver for penalties. Language regarding this process is also included in the draft contract amendment. Financial Planning and Analysis staff are assisting with the review and approval process for the monthly invoices, and the review includes verification of the back-up documentation for all penalties assessed.	Management response under review by Internal Audit

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8/30/17	17-508	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.	Feb-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. <u>Management Response March 2018: The on-time performance window was adjusted back to a zero to five minute window, consistent with the contract, with the adjustment retroactive to February 2016.</u>	Management response under review by Internal Audit

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8/30/17	17-508	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>	Feb-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> <p>Management Response March 2018: Management has drafted a contract amendment to revise the Price Summary to include costs associated with the additional services.</p>	Management response under review by Internal Audit

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4/12/17	17-504	F&A	Investment Management Service Contracts	Management should ensure compliance with procurement policies and ensure that decisions to accept deviations from the Request for Proposals (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.	Apr-18	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. CAMP will also remind staff that project managers may not conduct direct negotiations. If the evaluation committee recommends 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 to demonstrate the method for calculating pricing as well as how the pricing criteria was scored. Additionally, contracts will be issued consistent with the cost estimate on file. 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. Update December 2017: CAMP has reviewed procedures and provided training as indicated and management has developed a policy on the use of OCTA's logo. HROD management plans to incorporate a policy on testimonials into the Code of Conduct in April 2018.	

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9/27/17	18-502	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.	Apr-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.	
10/19/17	17-506	HROD	Employee Health Benefits	Management should develop and implement written procedures to ensure that all qualified Health Savings Account (HSA) enrollees receive their employer-paid contribution. Further, OCTA should make the required HSA contributions, plus reasonable interest, to the employees identified in the audit.	Apr-18	The contributions have been remediated and processed to the two employee HSA's. Reasonable interest will be calculated and deposited. As these transactions are processed as payroll earnings, benefits will work with payroll to establish written procedures.	
10/19/17	17-506	HROD	Employee Health Benefits	Management should develop a written policy and procedures for collection of premiums in arrears.	Apr-18	The participant that owed \$1,336.40 as of December 2016, has paid this amount to OCTA. Management will work on a written policy and procedure to collect unpaid medical premiums.	
10/19/17	17-506	HROD	Employee Health Benefits	Management should seek Board member input and clarify the policy to address benefits eligibility for Board members that receive cash payments in-lieu of health benefits from the public entity they serve.	Apr-18	Management will consider revisions to the FY 2018-2019 (FY19) P&SR to clarify the policy. The FY19 P&SR will be presented for Board of Directors approval in June 2018, along with the annual budget.	

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12/26/17	N/A	Transit	Investigation and Limited Scope Review of the Senior Mobility Program (SMP) operated by the Korean American Senior Association (KASA)	KASA violated the SMP requirement to provide wheelchair-accessible vehicles. Internal Audit recommends management continue oversight activities and report any continued non-compliance to the Board for consideration as to future funding of this program.	Jun-18	Based on performance over the past year, contact with the program administrator on a variety of issues regarding compliance, as well as the current audit findings, staff is not confident that even with an enhanced level of oversight, compliance can be ensured. Management recommends that a 90-day termination notification be sent to KASA and funding be discontinued at the end of that period.	
12/26/17	N/A	Transit	Investigation and Limited Scope Review of the SMP operated by the KASA	Unallowable and unsupported costs are charged to the SMP, and costs reported for June 2017 did not agree to KASA's financial records. Internal Audit recommends that the OCTA coordinator review with KASA program guidelines for allowable direct and indirect costs. The coordinator should disallow all indirect costs charged directly to the SMP and any costs that are not adequately supported. The coordinator should also train KASA on monthly reporting requirements. Finally, any continued non-compliance should be reported to the Board for consideration as to future funding of this program.	Jun-18	Funds disbursed to KASA for service provided in 2018 will be adjusted, with the overstated \$1,564 deducted from the disbursement. If support for the program is discontinued as recommended by staff, KASA will receive a portion of the funds left for the current FY through the date of termination.	

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12/26/17	N/A	Transit	Investigation and Limited Scope Review of the SMP operated by the KASA	The age requirement to join KASA is currently set at 55 years and older; however, the SMP program defines eligible participants as 60 years and older. Internal Audit recommends that management require KASA to develop procedures to ensure only qualified trips are charged to the SMP.	Jun-18	If support for the program is continued, OCTA staff will monitor this during the site visits.	
12/26/17	N/A	Transit	Investigation and Limited Scope Review of the SMP operated by the KASA	Documentation on file indicates that KASA provides some trips outside their approved service plan. Internal Audit recommends that the coordinator disallow costs related to trips outside the service plan. The coordinator should also instruct KASA to reconcile monthly reports to trips sheets prior to submittal. Any continued non compliance should be reported to the Board for consideration as to future funding of this program.	Jun-18	If support for the program is continued, OCTA staff will monitor this during the site visits.	

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1/15/18	18-503	F&A	Purchasing Cards	The purchasing card administrator should enhance oversight procedures to include analysis of transaction activity and review of any transactions exceeding \$2,500.	Jul-18	The purchasing card administrator will enhance oversight procedures to include analysis of all cardholder's monthly transaction activity exceeding \$2,500.	
1/15/18	18-503	F&A	Purchasing Cards	Management should implement controls to ensure compliance with procedures or consider revising procedures to allow certain employees, who purchase food items on a regular basis, to do so without executive approval on each receipt.	Jul-18	Management agrees to revise the Business Expenses Policy to include modifications to the current procedure. The modifications will be as follows: require executive approval on each receipt for food item purchases, except for food purchased by the Clerk of the Board for Board and Committee meetings and new employee orientation conducted by HROD. Modifications to the Business Expenses Policy will be completed by March 31, 2018.	
1/15/18	18-503	F&A	Purchasing Cards	Four of the 24 designated approving officials are not department managers or directors, as required by procedures. Internal Audit recommends management replace these approving officials with either a department manager or a director, or revise procedures to reflect intended practices.	Jul-18	Management has reviewed the recommendation and agrees to update the Purchasing Card User Guide Policies and Procedures to include section managers as approving officials. The Purchasing Card User Guide Policies and Procedures will be updated and posted on OCTA Today no later than January 31, 2018.	

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3/6/18	18-504	Capital Programs	Metrolink Control Point Fourth Project	Internal Audit recommends management review with Metrolink staff the process for procuring contractors for OCTA projects to ensure compliance with regulatory guidelines and best practices.	Sep-18	Management agrees. Metrolink should follow its internal policies and procedures to solicit requests for proposals to issue a Contract Task Order (CTO) from their on-call bench of consultants or contractors to obtain competitive proposals. Additionally, Metrolink should document how a CTO is determined to be the most appropriate procurement method and include records of negotiation. Metrolink also needs to verify the proposed work is allowable in the scope of work for the contract. OCTA will follow-up with Metrolink on OCTA projects to inquire how services will be procured prior to procurement activities.	
3/12/18	N/A	Planning & Transit	Measure M City Audits: Local Fair Share and Senior Mobility Program, Year Ended 2017	Observations were made relating to the classification of Maintenance of Effort expenditures, indirect charges not properly supported, errors in reporting of amounts on required activity reports and annual expenditure reports, and service contractor procurement. Internal Audit recommends management follow-up with the cities to ensure corrective action has been taken.	Sep-18	Management will follow-up with the cities to ensure appropriate actions have been taken to address observations.	