

**Audit Recommendations Closed During
Fourth Quarter, Fiscal Year 2017-18**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Management Response
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.	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. Update April 2018: 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.
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.	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. Update April 2018: 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.

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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.	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>Update April 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. 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.
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 of Directors (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.	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>Update April 2018:</u> 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.

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8/30/17	17-508	Transit	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.</p> <p>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 Contracts Administration and Materials Management (Camm) review all Request for Proposals (RFP) addendums to determine if there have been changes in attachments and exhibits, before finalizing contracts</p>	<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. 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. Update April 2018: The contract was amended to reduce the maximum obligation by the overstated fixed costs and to revise the Price Summary Sheet to reflect fixed costs being billed.</p>
9/27/17	18-502	Capital Programs	Right-of-Way Acquisition Activities for the Interstate 405 (I-405) Project K	<p>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.</p>	<p>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. Update April 2018: Management has developed written procedures for the reporting of administrative settlements and contracts executed under the Program for the I-405 Project, which provide the frequency and method of reporting.</p>

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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 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.	CAMM will ensure an Independent Cost Estimate is provided as required and will re-enforce this requirement with staff. CAMM 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. CAMM 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: CAMM has reviewed procedures and provided training as indicated and management has developed a policy on the use of OCTA's logo. Human Resources and Organizational Development (HROD) management plans to incorporate a policy on testimonials into the Code of Conduct in April 2018. Update April 2018: A policy on testimonials has been included in the Code of Conduct Policy which was approved by the Board on April 23, 2018.
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.	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. Update June 2018: The coordinator has continued oversight activities over wheelchair accessibility, as recommended.

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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.	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. Update June 2018: The coordinator has reviewed with KASA the program guidelines for allowable direct and indirect costs, requirements for supporting documentation, and monthly reporting requirements, as recommended.
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.	If support for the program is continued, OCTA staff will monitor this during the site visits. Update June 2018: The coordinator has instructed KASA to develop procedures to ensure that SMP trips are only provided to individuals 60 years of age and older. The coordinator has also ridden the service to determine if member identification cards are being checked.

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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.	If support for the program is continued, OCTA staff will monitor this during the site visits. Update June 2018: The coordinator worked on an amendment to add churches and restaurants to the service plan. The coordinator has been questioning KASA when trips appear to be out of service plan. The coordinator has also been reviewing trips sheets as part of her monthly review.
2/15/17	16-509	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 approval.	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. Update June 2017: 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. Update March 2018: 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%. Update June 2018: Management provided the salary grade changes for FY 2018-19 with the supporting documentation for the changes to one job family. For the other changes, management provided explanations, as documented in the salary analysis forms for individuals impacted by the changes.

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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.	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. Update October 2017: Since revisions to the Policy have not been finalized, Internal Audit will keep this recommendation open and return by the end of the FY. Update March 2018: 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%. Update June 2018: Management has updated its Position Control Policy Procedures to include HR's monthly review of the Position Control Report to ensure the total budgeted headcount is not exceeded, as evidenced by initialing of the front sheet of the report.
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.	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%. Update June 2018: Management included a paragraph in the FY 2018-19 budget staff report that explains why the two emergency malware vendors are included in the sole source list when other vendors could also provide these services.