



January 24, 2024

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2023-24 Internal Audit Plan, Second 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 report provides an update on activities for the second quarter of the fiscal year.

Recommendation

Receive and file the second 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) serves as 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 reviews, investigations, pre-award price reviews, and Buy America reviews. In addition, audits initiated by entities outside of OCTA are coordinated through Internal Audit.

Discussion

The OCTA Internal Audit Department (Internal Audit) Fiscal Year (FY) 2023-24 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project.

During the second quarter of the FY, Internal Audit presented the results of an audit of OCTA Store operations. Based on the audit, controls over OCTA Store operations are adequate and operating. Internal Audit noted that management has implemented procedures that ensure proper safeguarding of cash, transponders, and pass fare media and exercises appropriate security over the premises.

In addition, an audit of cooperative agreements between OCTA and the Regional Center of Orange County (RCOC) and My Day Counts (MDC) was issued. The audit concluded that contract, oversight, and monitoring controls should be improved. Recommendations were made to reconsider or strengthen the pass-through trip arrangement with MDC, to implement procedures to reconcile and resolve trips disputed by RCOC, and to improve the timeliness of invoice and collection processing, as well as recording and monitoring of receivable amounts. Management agreed to implement the recommendations. This audit was presented to the Finance and Administration Committee and the Board of Directors (Board) on November 29, 2023 and December 11, 2023, respectively.

An audit of Transit Police Services was also completed and concluded that the Orange County Sheriff-Coroner Department provides transit security and protection services in accordance with the contract; however, recommendations were made to comply with contract requirements for preparation of an annual work plan and special service requests, to track all costs of transit security and evaluate allocation of such costs for appropriateness, and to improve the grant reimbursement process to ensure all eligible costs are identified and reimbursed. Management agreed to implement the recommendations. This audit was presented to the Finance and Administration Committee and the Board on January 10, 2023 and January 22, 2023, respectively.

Internal Audit also issued results of an investigation and limited scope review of a scope change to a Comprehensive Transportation Funding Programs (CTFP) Project V award to the City of Huntington Beach (City). The investigation and limited scope review resulted from an anonymous complaint received through the OCTA Fraud Hotline. While the review did not find evidence of fraud, defined as any activity that relies on deception to achieve gain, Internal Audit identified a lack of reference, or criteria, for Project V scope changes in CTFP guidelines and confirmed that facts related to the scope change were misrepresented in the request for Board approval. Internal Audit also confirmed that the scope change will allow the City to apply for funding as an existing Project V-funded project, a category given the highest priority in the 2024 call for projects. Recommendations were made to update CTFP guidelines to include guidance as to acceptable scope and/or programming changes, to conduct and document evaluation of scope changes against criteria, and to ensure accurate and complete communications to the Board. Management agreed to consider

changes to CTFP guidelines and to implement procedures to address evaluation, documentation, and communication of scope changes moving forward. Additionally, management presented a detailed overview of the scope change request and obtained reaffirmation of Board approval for the change. These items were presented to the Board on December 11, 2023.

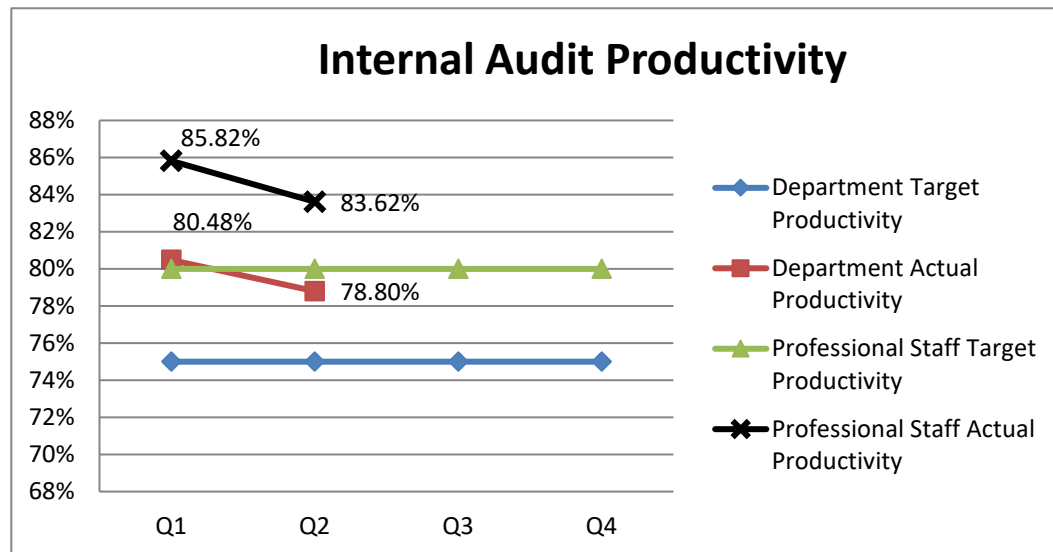
Finally, results of the 2023 Federal Transit Administration's triennial review of OCTA were provided to the Board in November 2023. The purpose of the review is to evaluate compliance with grant requirements and management practices as they relate to the use of federal funds. No deficiencies were found in any of the 23 areas reviewed.

The primary focus of Internal Audit as of December 31, 2023, and in the ensuing months, will be to provide coordination of the Measure M2 limited compliance audit and agreed-upon procedures reviews conducted by OCTA's independent auditor, Crowe LLP.

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 as a whole. 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.

For the second quarter ended December 31, 2023, Internal Audit achieved cumulative productivity of 79 percent, and professional staff productivity of 84 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 reviews of single bid procurements to ensure that CAMM handled the procurement in a fair and competitive manner. Internal Audit also reviews prices proposed by architectural and engineering firms and sole source contractors 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 second quarter, Internal Audit issued results of five price reviews.

Fraud Hotline

During the quarter ended December 31, 2023, Internal Audit received four reports through OCTA's Fraud Hotline, www.ethicspoint.com. One complaint lacked sufficient information to perform follow-up; the reporter was contacted but never responded. Two other reports were referred to customer service for follow-up. The fourth report was investigated and results reported to the Board in November 2023. As part of the administration of the hotline, Internal Audit maintains documentation of each complaint and its disposition.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended December 31, 2023, Internal Audit made initial contact within two business days.

Findings and Recommendations Tracking

At the request of the Finance and Administration Committee, unresolved audit recommendations are included with the quarterly updates to the Plan (Attachment B). Internal Audit includes the findings and recommendations generated internally, as well as those provided by regulatory auditors.

During the quarter ended December 31, 2023, Internal Audit completed follow-up reviews of seven outstanding audit recommendations and closed six. Follow-up reviews of seven other recommendations are in process at quarter end. One recommendation relating to the audit of lost and found operations had not been fully implemented and will be reviewed again in six months. Nine recommendations were added to the listing resulting from reports issued during the second quarter, as summarized above.

Summary

Internal Audit will continue to implement the Plan, report on performance metrics, follow up on outstanding audit recommendations, and report progress on a quarterly basis.

Attachments

- A. Orange County Transportation Authority Internal Audit Department
Fiscal Year 2023-24 Internal Audit Plan, Second Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through
December 31, 2023
- C. Audit Recommendations Closed During Second Quarter,
Fiscal Year 2023-24

Approved by:



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