




April 26, 2023

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director 
Internal Audit Department

Subject: Fiscal Year 2022-23 Internal Audit Plan, Third Quarter Update

Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2022-23 Internal Audit Plan on July 25, 2022. This report provides an update of activities for the third quarter of the fiscal year.

Recommendation

Receive and file the third quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2022-23 Internal Audit Plan as an information item.

Background

The Internal Audit Department (Internal Audit) is 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, 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 Fiscal Year (FY) 2022-23 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project.

During the third quarter of the FY, Internal Audit issued results of an audit of administrative employee mandatory training and employee educational reimbursements and offered two recommendations to improve controls. Management agreed and indicated actions are being taken to address weaknesses noted.

An audit of state and federal consulting contracts was also issued and concluded that invoices are paid in accordance with the contracts, and adequate controls are in place to monitor consultants and provide required reporting. One recommendation was offered to ensure compliance with policy for procuring consultants and to improve file documentation. Management agreed and confirmed that improvements will be made.

An audit of OC ACCESS eligibility concluded that oversight, contract compliance, and invoice review controls are generally adequate, but recommended improved monitoring and enforcement of contract staffing requirements, and timely notification and removal of contractor system access. Management agreed and indicated that contract staffing requirements will be reviewed and amended and controls implemented to ensure compliance.

Results of the required semi-annual investments audit for the period July 1 through December 31, 2022, were also issued. Based on the audit, OCTA generally complied with its debt, investment, and reporting policies and procedures; however, four recommendations were made to improve review of monthly reports, improve documentation of monitoring reviews, ensure bank accounts are reconciled in accordance with policy, and ensure that invoices comply with terms of the contract with OCTA's financial advisor. Management responded that all recommendations will be implemented.

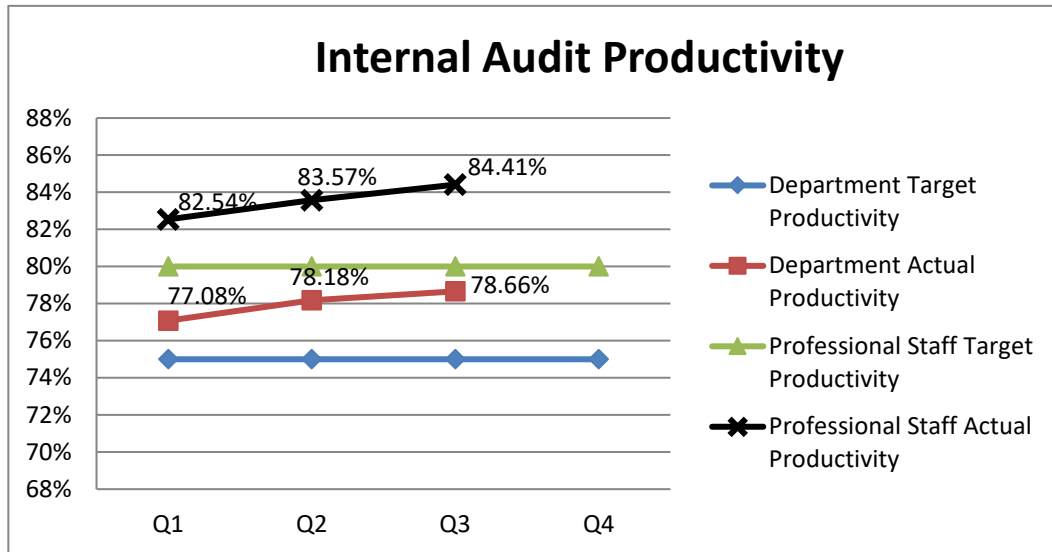
Another focus of Internal Audit during the quarter was to provide coordination and assistance related to agreed-upon procedure reviews of selected cities' compliance with Measure M2 Local Fair Share and Senior Mobility Programs. These audits are conducted by OCTA's independent financial statement auditor, Crowe LLP, and will be issued in the fourth quarter.

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.

As of the third quarter ended March 31, 2023, Internal Audit has achieved cumulative productivity of 79 percent, and the professional staff has achieved cumulative productivity of 84 percent.



Agreed-Upon Procedures Applied to Procurements

At the request of the Contracts Administration and Materials Management (CAMM) Department, and consistent with OCTA’s procurement policy, Internal Audit applies agreed-upon procedures to single bid procurements, prices proposed by architectural and engineering (A&E) firms, and sole source proposals exceeding \$50,000. These reviews are conducted to assist CAMM in determining whether single bid procurements were handled in accordance with policies, and whether pricing proposed by A&E firms and sole source contractors are fair and reasonable. In addition, at the request of CAMM, Internal Audit conducts pre-award and post-delivery agreed-upon procedures reviews of bus procurements to determine whether procurements are in accordance with federal Buy America laws. During the third quarter, Internal Audit issued results of six price reviews.

Fraud Hotline

During the quarter ended March 31, 2023, Internal Audit received two reports through OCTA’s Fraud Hotline, www.ethicspoint.com. Based on the nature of the complaints, one report was referred to human resources management for review and disposition and the second complaint was reviewed by Internal Audit.

As part of the administration of the hotline, Internal Audit maintains documentation of each complaint and its disposition.

Internal Audit is committed to initial response to all hotline complaints within eight business days. During the quarter ended March 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).

During the quarter ended March 31, 2022, Internal Audit completed follow-up reviews of 18 outstanding audit recommendations. Based on the follow-up reviews, ten recommendations have been adequately addressed and eight recommendations have not yet been fully implemented and will be reviewed again in six months. Twelve recommendations were added to the listing as a result of audits issued during the third quarter.

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 2022-23 Internal Audit Plan, Third Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through March 31, 2023
- C. Audit Recommendations Closed During Third Quarter, Fiscal Year 2022-23

Approved by:



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