



July 23, 2025

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2024-25 Internal Audit Plan, Fourth Quarter Update

Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2024-25 Internal Audit Plan on July 22, 2024. This update is for the fourth quarter of the fiscal year.

Recommendation

Receive and file the fourth quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2024-25 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 and the Board of Directors (Board) in the discharge of their 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 Fiscal Year (FY) 2024-25 Internal Audit Plan (Plan) reflects the status of each project as of year-end. Staff hours, as

reflected in Attachment A, represent total hours available for audit activities and are budgeted by project as a preliminary estimate of the effort required to meet the audit objectives. Actual hours spent on audit activities exceeded budgeted hours by approximately 100 hours.

For the FY 2024-25 Plan year, Internal Audit completed 44 projects, including 14 audits, 28 price reviews, and two Buy America reviews. As of June 30, 2024, two planned audits and two contingency audits are in process and will be carried over to the FY 2025-26 Plan. A planned audit of OC Streetcar vehicles was not initiated and will not be carried over to the FY 2025-26 Plan to avoid interference with ongoing legal activities.

During the fourth quarter, Internal Audit issued results of an audit of real estate administration. Based on the audit, controls over real estate administration could be improved. Five recommendations were made to develop procedures for implementing timely fair market adjustments, improve documentation of approval for negotiated lease rates, document reviews of insurance requirements, develop procedures for periodic inspection of leased properties, and implement procedures for collection of late payment fees. Management agreed to implement the recommendations.

An audit of contracted fixed-route services provided by Keolis Transit Services, LLC, was also issued and found that procurements and amendments were handled in accordance with policies and procedures, and invoice review controls are in place and operating effectively; however, recommendations were made to improve monitoring of contract performance standards and to clarify bond and insurance requirements. Management agreed to implement the recommendations.

An audit of the project controls function within the Capital Programs Division was completed and concluded that project changes are properly documented and approved, invoices are properly reviewed and approved, and project master schedules, monthly progress reports, and capital action plans are timely prepared and distributed. One recommendation was made to improve verification of consultant-billed labor hours during invoice review. Management agreed and indicated the recommendation will be implemented.

Also, during the quarter, results of required triennial audits of OCTA, the Orange County Transit District (OCTD) and Laguna Beach Municipal Transit Lines (LBMTL) for FY 2021-22 through FY 2023-24 were issued. The audits are required by the Transportation Development Act and were performed by BCA Watson Rice, LLP. The audits found OCTA and OCTD in compliance with applicable sections of the California Public Utilities Code. LBMTL was found to have met all compliance requirements except for its failure to file the required

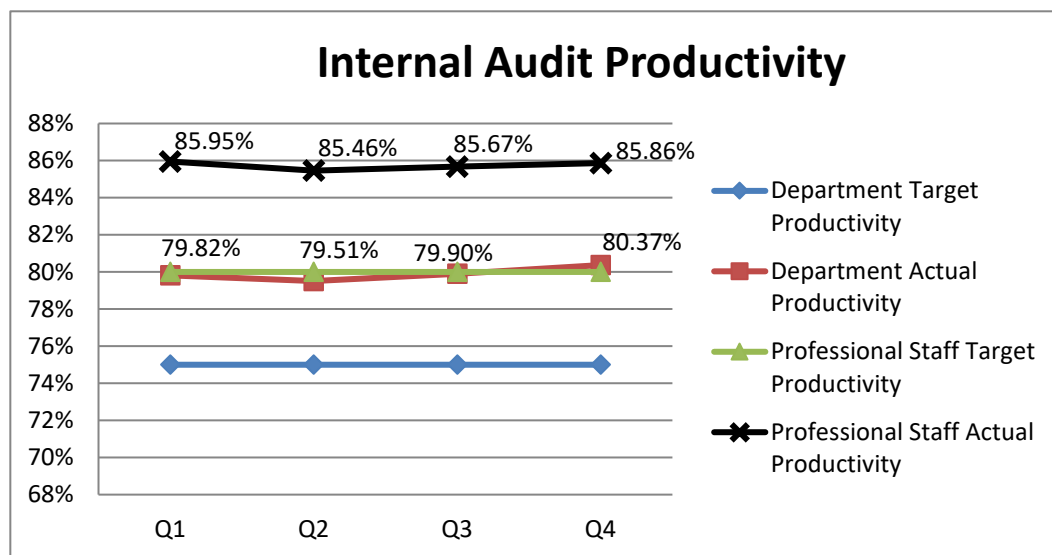
FY 2023-24 State Controller's Report within seven months of FY end. The audit of LBMTL offered three recommendations to improve implementation of its long-term goals and objectives, strengthen its reporting process, and ensure timely submissions to the State Controller's Office. Management will monitor implementation of these recommendations by LBMTL.

Finally, results of the Orange County Local Transportation Authority's (OCLTA) compliance with the Measure M2 Ordinance for the year ended June 30, 2024, and results of agreed-upon procedures (AUP) applied to determine selected jurisdictions' compliance with the Measure M2 Ordinance for the year ended June 30, 2024, were issued by the independent accounting firm, Crowe LLP. Results were presented to the Finance and Administration Committee, the Board, and the Audit Subcommittee of the Taxpayers Oversight Committee.

Internal Audit Productivity

Internal Audit measures the productivity of the department by calculating a productivity ratio. The ratio 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 Board 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 set at 80 percent.

As of the fourth quarter, Internal Audit achieved department productivity of 80.37 percent, and the professional staff achieved productivity of 85.86 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management (CAMM) Department, Internal Audit applies AUPs to single-bid procurements to ensure that CAMM handled the procurement in a fair and competitive manner. At CAMM's request, Internal Audit also applies AUPs to prices proposed by architectural and engineering firms and sole source contractors to ensure prices are fair and reasonable. During the fourth quarter, Internal Audit issued results of three price reviews.

Fraud Hotline

During the quarter ended June 30, 2025, Internal Audit received one report through OCTA's fraud hotline, however, the complaint lacked sufficient information to conduct follow-up. As part of the administration of the hotline, Internal Audit maintains documentation of each complaint and its disposition.

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 and OCTA's independent financial statement auditors.

During the quarter ended June 30, 2025, Internal Audit completed follow-up reviews of 13 outstanding recommendations and concluded that ten had been adequately addressed (Attachment C). Three recommendations, from audits of physical access security, Facilities Maintenance operations, and investment manager contracts, have not yet been fully implemented and will be reviewed again within six months. Follow-up review of three other recommendations is in process as of the quarter-end. Nine recommendations were added to the listing resulting from audits issued during the quarter, as summarized above.

Summary

The Orange County Transportation Authority Internal Audit Department Fiscal Year 2024-25 Internal Audit Plan is being closed out. Four projects that are in process have been carried forward to the FY 2025-26 Plan.

Attachments

- A. Orange County Transportation Authority Internal Audit Department
Fiscal Year 2024-25 Internal Audit Plan, Fourth Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through
June 30, 2025
- C. Audit Recommendations Closed During Fourth Quarter, Fiscal Year 2024-25

Approved by:



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