



**July 10, 2024**

**To:** Finance and Administration Committee

**From:** Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director  
Internal Audit

**Subject:** Fiscal Year 2023-24 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 2023-24 Internal Audit Plan on July 24, 2023. 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 2023-24 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 audits, investigations, and agreed-upon procedures reviews. Audits initiated by entities outside of OCTA are coordinated through Internal Audit.

### **Discussion**

The OCTA Internal Audit Fiscal Year (FY) 2023-24 Internal Audit Plan (Plan), Attachment A, reflects the status of each audit project as of year-end. Staff

hours, as reflected in Attachment A, represent total hours available annually for audit activities and are budgeted by project as a preliminary estimate of the effort required to meet the audit objective. Actual hours available for audit activities exceeded budgeted hours by approximately 375 hours due primarily to a decrease in the number of hours consumed for Internal Audit administrative and training activities.

For the Plan year, Internal Audit completed 35 projects, including 15 audits, 16 price reviews, and four Buy America reviews. As of June 30, 2024, three internal audits are in process. These audit projects, along with the one contingency audit, will be carried over to the OCTA Internal Audit FY 2024-25 Plan.

During the fourth quarter, Internal Audit issued results of an audit of the design-build contract for the Interstate 405 Improvement Project. Based on the audit, oversight and invoice review controls were in place and invoices complied with contract provisions. One recommendation was made to improve documentation maintained in payment and project files. Management agreed to ensure complete files going forward.

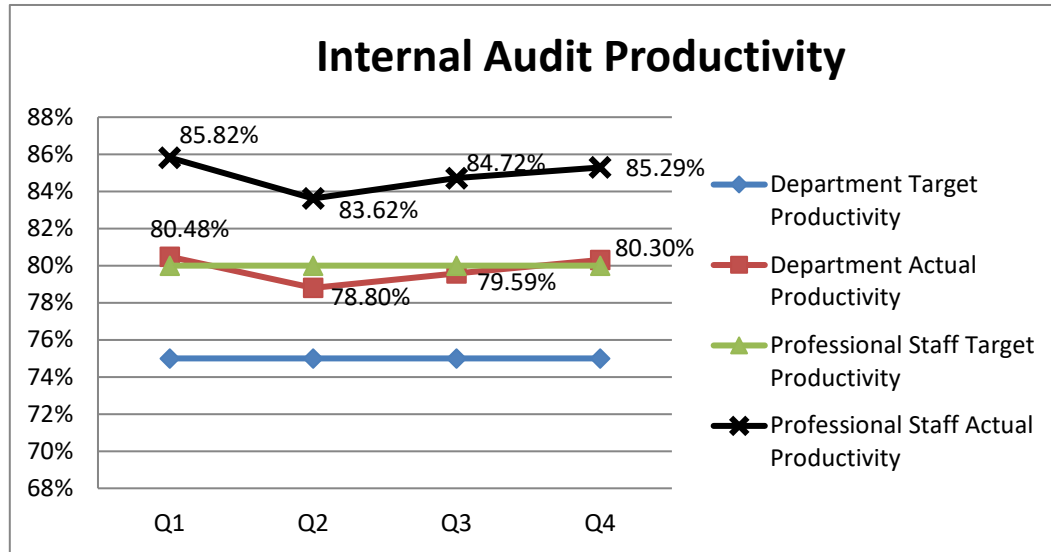
An audit of the flexible spending account program concluded that controls over employee enrollment, deductions, payments, and invoice processing are adequate and operating, and OCTA is complying with applicable Internal Revenue Service regulations. One recommendation was offered to implement controls to monitor the balance and activity of the custodial account held by WEX Health, Inc. Management agreed and indicated that a process for monitoring account transactions and balance will be implemented.

Also, during the quarter, Internal Audit provided results of an audit of liability claims management and found controls related to administration and management of general liability claims, and identification and management of subrogation claims, are adequate and functioning.

#### 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. 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.

By the quarter ended June 30, 2024, Internal Audit had achieved cumulative productivity of 80 percent, and the professional staff achieved cumulative productivity of 85 percent.



### Price Reviews

At the request of the Contracts Administration and Materials Management (CAMP) Department, and consistent with OCTA's procurement policy, Internal Audit conducts agreed-upon procedure reviews of single-bid procurements exceeding \$50,000, to ensure that CAMP handled the procurement in a fair and competitive manner. Internal Audit also performs agreed-upon procedure reviews of sole source contractor proposals exceeding \$50,000, and prices proposed by architectural and engineering firms exceeding \$150,000, 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 fourth quarter, Internal Audit completed three price reviews. For the year ended June 30, 2024, a total of 16 price reviews were issued.

### Fraud Hotline

Internal Audit is responsible for administering the OCTA Fraud Hotline. The fraud hotline system allows reporters to file complaints anonymously through the internet or by calling a toll-free phone number. Complaints may also be received in person, by phone, or by mail directly to Internal Audit. To ensure proper recordkeeping, all complaints are recorded in the Ethicspoint system, regardless of how the complaint is received.

During the quarter ended June 30, 2024, no reports were received. A total of eight reports were received during the FY.

#### **Outstanding Audit Recommendations Tracking**

At the request of the Finance and Administration Committee, a listing of outstanding audit recommendations is included with the quarterly updates to the Plan as Attachment B.

For the quarter ended June 30, 2024, Internal Audit performed follow-up and closed out three outstanding recommendations, as reflected in Attachment C. Follow-up review of another nine outstanding recommendations is underway as of quarter-end. Two recommendations were added to the listing as a result of the audit of the design-build contract for the Interstate 405 Improvement Project and the audit of the flexible spending account program, summarized above.

#### ***Summary***

The Orange County Transportation Authority Internal Audit Department Fiscal Year 2023-24 Internal Audit Plan is being closed out. Three projects that are in process, and one contingency project, have been carried forward to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2024-25 Internal Audit Plan. The Internal Audit Department will continue to perform follow-up of all outstanding findings and recommendations.

#### ***Attachments***

- A. Orange County Transportation Authority Internal Audit Department Fiscal Year 2023-24 Internal Audit Plan, Fourth Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through June 30, 2024
- C. Audit Recommendations Closed During Fourth Quarter, Fiscal Year 2023-24

#### **Approved by:**



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Executive Director, Internal Audit  
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