



January 22, 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, Second 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 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 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 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 Fiscal Year (FY) 2024-25 Internal Audit Plan (Plan) reflects the status of each project (Attachment A).

During the second quarter of the FY, Internal Audit issued results of an audit of design and construction management contracts for the Oso Parkway to Alicia Parkway segment of the Interstate 5 Improvement Project. Based on the audit, oversight controls are in place and operating effectively and contract compliance and invoice review controls are generally adequate; however, one recommendation was made to enforce contract pre-approval requirements for other direct costs not included in the contract schedule. Management agreed to remind the consultant about this requirement and to make every effort to ensure the inclusion of all potential other direct costs in the contract schedule.

Also, during the quarter, an audit of investment manager contracts was finalized and concluded that oversight, contract compliance, and invoice review controls are generally adequate; however, two recommendations were made to improve compliance with contract terms related to replacing key personnel and to improve the timeliness of invoice processing. Management agreed to remind investment managers of the requirements for replacing key personnel, to periodically verify key personnel, and to enhance controls to ensure timely payment of invoices.

An audit of purchasing cards found that controls to ensure transactions are valid, allowable, authorized, and in compliance with policies, and procedures are generally adequate. One recommendation was made to update policies and practices to better ensure compliance and avoid errors. Management agreed to make recommended updates to procedures.

A planned audit of OC Streetcar vehicles has been placed on hold on the advice of legal counsel and to comply with Government Auditing Standards requiring Internal Audit to consider interference with possible legal proceedings.

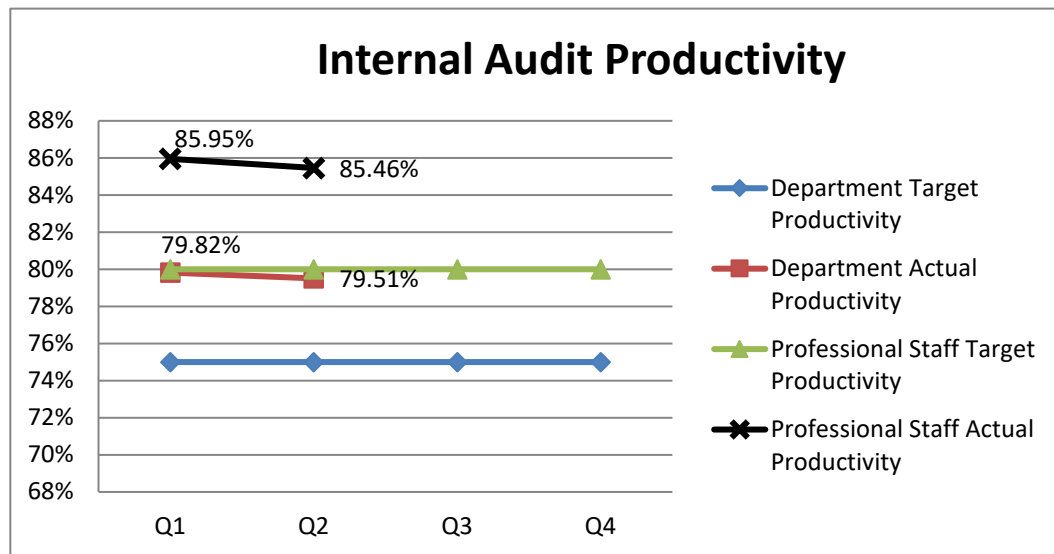
Another focus of Internal Audit during the quarter was to provide coordination and assistance related to the annual financial audits and agreed-upon procedures reviews (reviews) conducted by OCTA's independent financial statement auditor, Crowe LLP. All audits and reviews, except the Measure M2 (M2) compliance audit and the reviews related to individual cities, were issued during the quarter. The M2 compliance audit and city reviews will be performed and issued during the third 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 second quarter, ended December 31, 2024, Internal Audit has achieved productivity of 80 percent, and the professional staff have achieved productivity of 86 percent.



Price Reviews

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 (AUP) to single bid procurements to ensure that CAMM handled the procurement in a fair and competitive manner. Internal Audit also applies AUPs to prices proposed by architectural and engineering firms and sole source contractors to ensure that the prices are fair and reasonable. During the second quarter, Internal Audit issued results of eight price reviews.

Internal Audit Quality Assurance/Management

During the quarter, Internal Audit evaluated newly issued Government Auditing Standards and designed and implemented procedures to comply with requirements for an internal quality management system.

Fraud Hotline

During the quarter ended December 31, 2024, Internal Audit received five reports through OCTA's Fraud Hotline, www.ethicspoint.com. Two complaints were referred to customer relations for follow-up. Another complaint was referred to human resources, and two complaints lacked sufficient information to perform follow-up or investigation. 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, 2024, 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 and OCTA's independent financial statement auditors.

During the quarter ended December 31, 2024, Internal Audit completed follow-up reviews of nine outstanding recommendations and closed two. Four recommendations from the audits of facilities maintenance and the college pass program have not yet been fully implemented and will be reviewed again in six months. Follow-up review of three recommendations is in process as of quarter-end. Seven recommendations were added to the listing as a result of audits issued during the first 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 2024-25 Internal Audit Plan, Second Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through
December 31, 2024
- C. Audit Recommendations Closed During Second Quarter, Fiscal Year 2024-25

Approved by:



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