



April 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, Third 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 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 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 third quarter, Internal Audit issued results of an audit of compensation. Based on the audit, policies, procedures, and controls over employee compensation actions are in place and operating effectively; however, recommendations were made to strengthen controls to ensure compliance with the temporary salary increases policy and to improve documentation supporting incentive calculations and cell phone allowance. Management agreed to ensure sufficient support for temporary salary increases, incentive calculations, and cell phone allowance assessments are maintained on file.

An audit of the agreement with Cofiroute USA, LLC (Cofiroute) for operation of the 91 Express Lanes was also issued and concluded that, while management exercises oversight of Cofiroute, improvements are necessary. Recommendations were made to enforce all contract requirements, develop and implement procedures for penalty waivers, improve performance reporting, and enhance invoice review controls. Management agreed and will implement the recommendations.

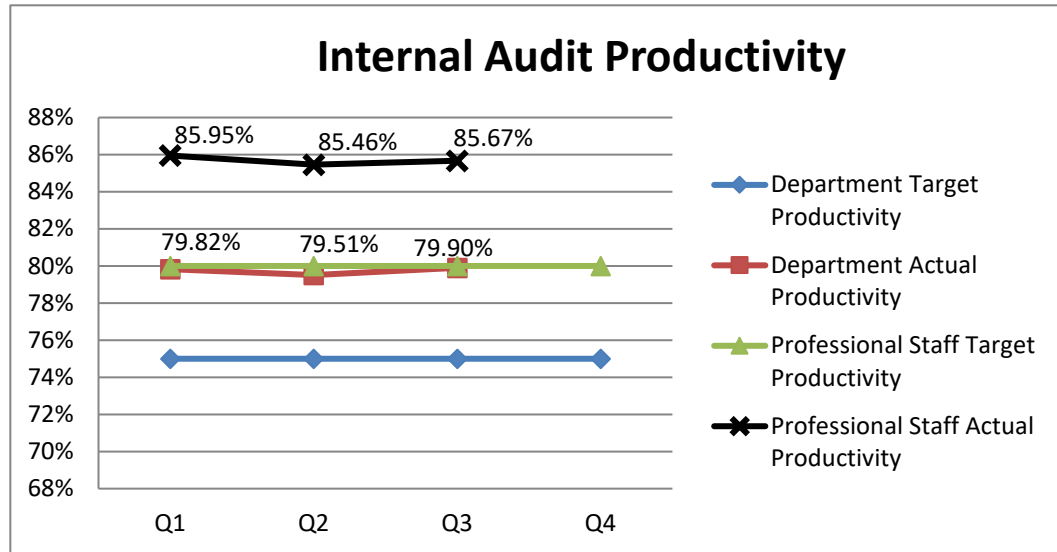
Also, during the quarter, the semi-annual audit of investments was completed and found OCTA complied with its debt, investment, and reporting policies and procedures; however, one recommendation was made to accurately identify variable and floating rate securities in monthly reports. Management agreed to enhance its review process to ensure accuracy in future reports.

Finally, an audit of transit field supervision was issued. The audit found that field supervision activities are effectively performed and recorded and comply with guidelines and standards set by management.

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, 2025, Internal Audit has achieved productivity of 79.90 percent, and the professional staff have achieved productivity of 85.67 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 third quarter, Internal Audit issued results of ten price reviews.

Internal Audit Quality Assurance/Management

During the quarter, an external quality assurance, or peer review, was conducted and found that Internal Audit's quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Generally Accepted Government Auditing Standards for the period January 1, 2022 through December 31, 2024. The independent peer review team, provided through the Association of Local Government Auditors, complimented Internal Audit for achieving high productivity while maintaining quality of work.

Fraud Hotline

During the quarter ended March 31, 2025, Internal Audit received two reports through OCTA's Fraud Hotline, www.ethicspoint.com. One complaint was referred to Human Resources for investigation and the second complaint was referred to customer relations for follow-up. 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 March 31, 2025, 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 March 31, 2025, Internal Audit completed follow-up reviews of ten outstanding recommendations and concluded that three had been adequately addressed (Attachment C). The remaining seven recommendations from the audits of cybersecurity, Transit Police Services, flexible spending accounts, and investments have not yet been fully implemented and will be reviewed again in six months. Follow-up review of another nine recommendations, related to four audits, is still in process as of quarter-end. Seven recommendations were added to the listing as a result of audits issued during the 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, Third Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through
March 31, 2025
- C. Audit Recommendations Closed During Third Quarter, Fiscal Year 2024-25

Approved by:



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