



July 27, 2022

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2021-22 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 2021-22 Internal Audit Plan on August 9, 2021. 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 2021-22 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, 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) 2021-22 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 200 hours due primarily to a decrease in the number of hours consumed for Internal Audit administrative activities.

For the Plan year, Internal Audit completed 35 projects, including 23 price reviews, ten internal audits, one unscheduled agreed-upon procedures review, and one Buy America review. As of June 30, 2022, four internal audits are in process, one audit has been completed with a draft report in circulation, and one audit has not yet commenced. These audit projects were carried over to the OCTA Internal Audit FY 2022-23 Plan approved by the Board of Directors on July 25, 2022.

During the fourth quarter, Internal Audit issued results of an audit of freeway service patrol (FSP) operations. Based on the audit, procurements were handled in accordance with OCTA procurement policies, and oversight and invoice review controls were adequate to ensure compliance with policy and contract agreements. In addition, management has implemented effective monitoring controls to ensure that service providers comply with FSP Standard Operating Guidelines.

An audit of investments for the period July 1 through December 31, 2021, found that OCTA complied with its debt, investment, and reporting policies and procedures during the period.

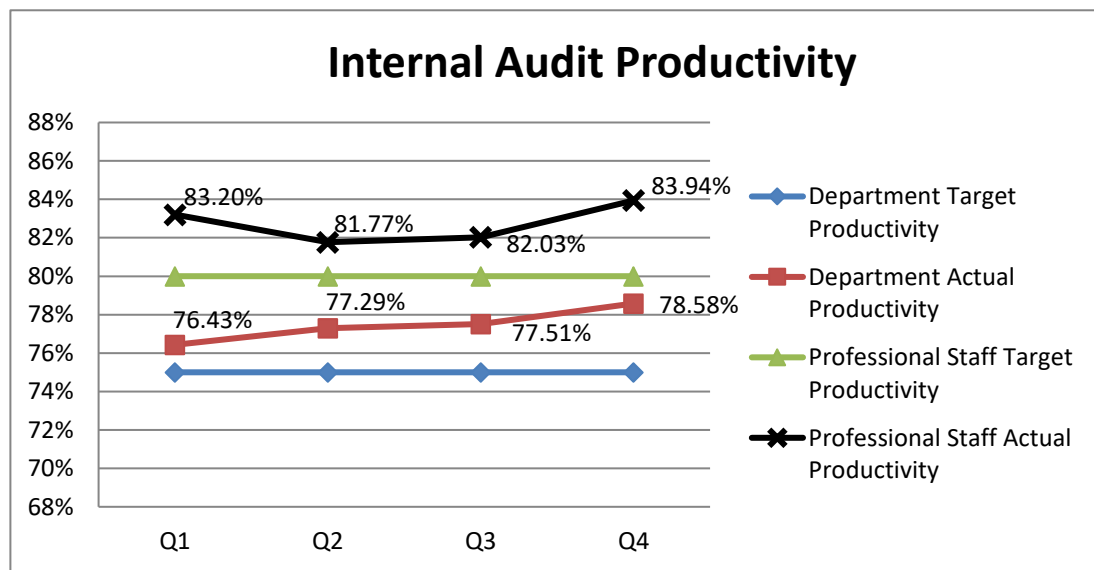
Also, during the quarter, Internal Audit provided results of an audit of temporary staffing services that found contract compliance, oversight, and invoice review controls were adequate and operating.

Lastly, an audit of the revenue vehicle procurement process was completed and concluded that revenue vehicle acceptance procedures and invoice review controls were generally adequate and operating; however, two recommendations were made to update policy and procedures related to cooperative procurements and to ensure that regulatorily-required resident inspector reports are prepared.

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, 2022, Internal Audit had achieved cumulative productivity of 79 percent, and the professional staff achieved cumulative productivity of 84 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management (Camm) 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 Camm 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 nine price reviews. For the year ended June 30, 2022, a total of 23 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, 2022, Internal Audit received three reports. One report was a customer complaint and was referred to customer service for disposition; a second report was a complaint unrelated to OCTA and the reporter was referred to the local police department. A third report, alleging that altered documents were provided to Internal Audit during follow-up of an outstanding audit recommendation, was investigated and substantiated. As a result, Internal Audit will perform additional follow-up of the recommendation and the matter was referred to Human Resources for additional investigation and disposition.

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, 2022, Internal Audit completed a follow-up review of one outstanding audit recommendation from the investments audit and closed out the recommendation, as reflected in Attachment C. Follow-up review of another outstanding recommendation from the audit of the Bridgestone/Firestone tire lease and services contract was also performed and management was notified that the recommendation would be closed out. However, subsequently, Internal Audit confirmed that altered documents were provided as part of the follow-up review, as noted above. As a result, this recommendation will remain open and additional follow-up will be performed. Follow-up of another seven recommendations is in process as of quarter end. Two recommendations were added to the listing resulting from the revenue vehicle procurement audit, summarized above.

Summary

The Orange County Transportation Authority Internal Audit Department Fiscal Year 2021-22 Internal Audit Plan is being closed out. Five projects that are in process, and one project that has not yet commenced, have been carried forward to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2022-23 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 2021-22 Internal Audit Plan, Fourth Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued through June 30, 2022
- C. Audit Recommendations Closed During Fourth Quarter, Fiscal Year 2021-22

Approved by:



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Executive Director, Internal Audit
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