



January 25, 2023

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer  For

Janet Sutter, Executive Director 
Internal Audit Department

Subject: Fiscal Year 2022-23 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 2022-23 Internal Audit Plan on July 25, 2022. This report provides an update of 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 2022-23 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, 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) 2022-23 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project.

During the second quarter of the FY, Internal Audit issued results of an audit of independent cost estimates related to OCTA procurements. Based on the audit, independent cost estimates were not always prepared in compliance with policy and procedures. In addition, Internal Audit identified concerns about oversight and procurement activities related to one consultant. Two recommendations were made to enhance controls over independent cost estimates and to implement additional controls related to contract management of one consultant. Management agreed with the recommendations and indicated that controls would be improved.

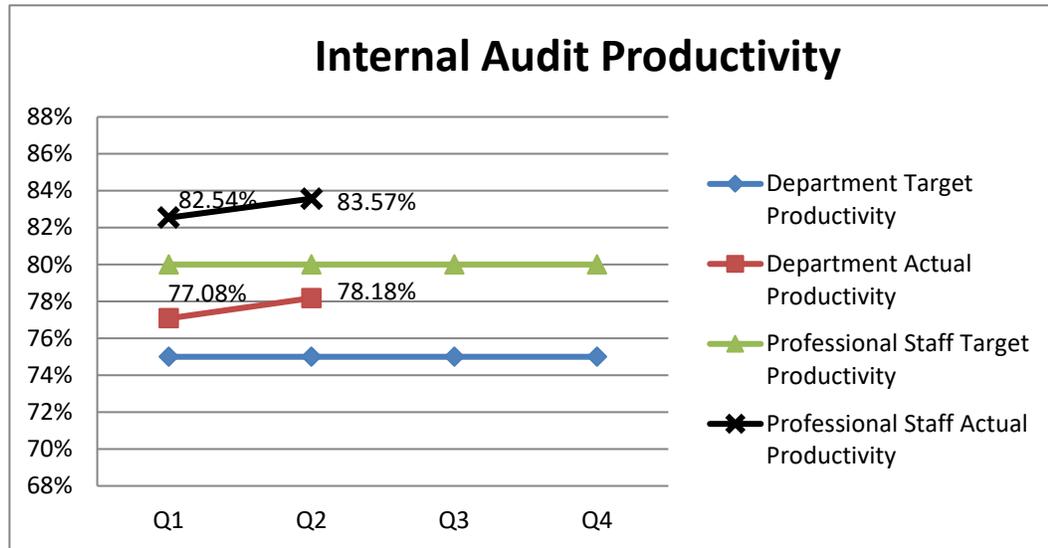
An audit of right-of-way and appraisal services and activities was also completed and found that service procurements were handled in accordance with procurement policies and procedures, and oversight and invoice review controls are adequate. However, recommendations were made to ensure a documented cost or price analysis is conducted for contract amendments with pricing changes, and that policy and procedures be expanded to provide clarification on the application of settlement authority thresholds. Management agreed with the recommendations and proposed enhanced controls and updates to policies, as recommended.

Another focus of Internal Audit during the quarter was to provide coordination and assistance related to the annual financial audits and agreed-upon procedure reviews conducted by OCTA's independent financial statement auditor, Crowe LLP. All audits and agreed-upon procedures reviews, except those related to individual cities, were issued during the quarter. City audits 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, 2022, Internal Audit has achieved productivity of 78 percent, and the professional staff achieved productivity of 84 percent.



Agreed-Upon Procedures Applied to Procurements

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 to single bid procurements, prices proposed by architectural and engineering (A&E) firms, and sole source proposals exceeding \$50,000. These reviews are conducted to assist CAMM in determining whether single bid procurements were handled in accordance with policies, and whether pricing proposed by A&E firms and sole source contractors are fair and reasonable. In addition, at the request of CAMM, Internal Audit conducts pre-award and post-delivery agreed-upon procedures reviews of bus procurements to determine whether procurements are in accordance with federal Buy America laws. During the second quarter, Internal Audit issued results of three price reviews and one post-delivery Buy America review.

Fraud Hotline

During the quarter ended December 31, 2022, Internal Audit received one report through OCTA’s Fraud Hotline, www.ethicspoint.com. Based on the nature of the complaint, it was referred to appropriate internal management for disposition. 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, 2022, 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).

During the quarter ended December 31, 2022, Internal Audit completed follow-up reviews of two outstanding audit recommendations. Based on the follow-up reviews, both recommendations have been adequately addressed. Four recommendations were added to the listing as a result of audits issued during the second quarter.

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 2022-23 Internal Audit Plan, Second Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through December 31, 2022
- C. Audit Recommendations Closed During Second Quarter, Fiscal Year 2022-23

Approved by:



Janet Sutter
Executive Director, Internal Audit
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