



**April 26, 2017**

**To:** Finance and Administration Committee

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

Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Fiscal Year 2016-17 Internal Audit Plan, Third Quarter Update

### **Overview**

The Orange County Transportation Authority Board of Directors adopted the Fiscal Year 2016-17 Internal Audit Plan on July 25, 2016. This update is for the third quarter of the fiscal year.

### **Recommendation**

Receive and file the third quarter update to the Orange County Transportation Authority Fiscal Year 2016-17 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. Audits initiated by entities outside of OCTA are coordinated through Internal Audit.

### **Discussion**

The OCTA Fiscal Year (FY) 2016-17 Internal Audit Plan (Plan) (Attachment A) reflects the status of each audit project. At quarter end, several projects are in process.

During the third quarter of the FY, Internal Audit issued an audit of Payment Card Industry Data Security Standard (PCI-DSS) compliance. Based on the

audit, OCTA is not fully compliant with standards and reporting requirements of the PCI DSS or related payment card issuer standards. Internal Audit recommended management evaluate the necessary resources and controls to ensure full compliance with PCI DSS and develop a proposal to achieve compliance and/or provide a reasonable approach moving forward. Management agreed and outlined actions for undertaking an assessment and evaluation of steps necessary to become fully compliant. Internal Audit also recommended management implement procedures to ensure that quarterly network scans are performed and remediation efforts are identified and addressed accordingly. Management agreed to perform quarterly scans and implement remediation actions based on risk and cost.

Internal Audit also issued the audit of budget development, monitoring, and reporting. Based on the audit, controls were found to be generally adequate; however, recommendations were made to enhance and expand written procedures, to improve controls over salary grade changes, to adhere to the Position Control Policy, and to improve estimates and explanations included with the Sole Source List. Management agreed and proposed appropriate corrective actions.

An audit of OCTA policies and procedures was completed and found that, while policies and procedures are approved as required, enhanced controls are needed to ensure timely update and communication of new and revised policies and procedures, as well as improved tracking of policies and procedures. Management agreed and proposed actions to address the recommendations.

Internal Audit also completed work on an audit of Coach Operator Health Insurance Benefits and provided coordination of an audit by the Department of Finance, on behalf of the California Department of Transportation, of Proposition 1B funds utilized on five grade separation projects and the Oso Parkway Widening Project.

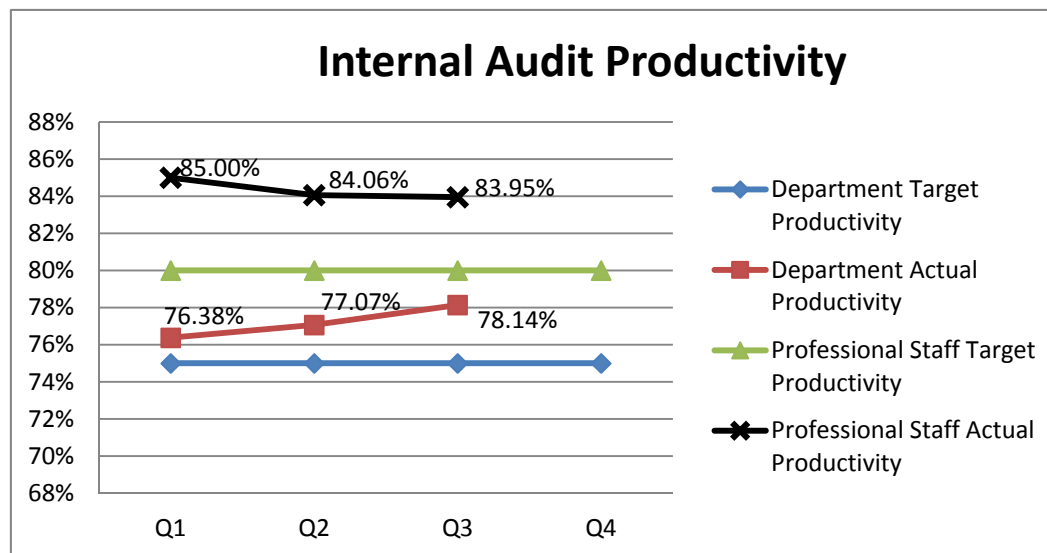
Also during the quarter, OCTA's independent financial statement auditor, Vavrinek, Trine, Day & Company, LLP (VTD) issued results of the annual Measure M Agreed-Upon Procedures (AUP) reviews. AUP were applied to the County of Orange in relation to the Senior Non-Emergency Medical Transportation Program, the cities of Fountain Valley, Fullerton, Laguna Niguel, Laguna Woods, Lake Forest, Newport Beach, Placentia, San Juan Capistrano, and Yorba Linda in relation to Local Fair Share funding, and the cities of Fullerton, Mission Viejo, Newport Beach, and Yorba Linda in relation to Senior Mobility Program Funding. Observations were made relating to the classification of Maintenance of Effort and Local Fair Share expenditures,

errors in reporting of amounts on required activity reports and annual expenditure reports, failure to allocate interest income, senior mobility program trips, inclusion of projects in city Capital Improvement Program plans, and service contractor procurement. OCTA staff will perform follow-up with the County of Orange and applicable cities to confirm that the observations have been addressed.

### 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.

For the quarter ended March 31, 2017, Internal Audit achieved productivity of 78 percent, and the professional staff achieved productivity of 84 percent.



### Price Reviews

At the request of the Contracts Administration and Materials Management (CAMP) Department, and consistent with OCTA procurement policy, Internal Audit conducts reviews of single bid procurements to ensure that CAMP handled the procurement in a fair and competitive manner. Internal Audit also reviews prices proposed by architectural and engineering firms, and sole

source contractors to ensure that the prices are fair and reasonable. Internal Audit makes recommendations to adjust proposed rates where they exceed the rates per review. When the value of recommended adjustments can be estimated, Internal Audit tracks and reports the potential savings, as noted below. During the quarter ended March 31, 2017, Internal Audit conducted ten pre-award agreed-upon procedures reviews and recommended price adjustments, as indicated below:

| Quarter | Price Reviews<br>Recommended<br>Adjustments |
|---------|---------------------------------------------|
| 1       | \$ 662,136                                  |
| 2       | 197,557                                     |
| 3       | 328,792                                     |
| 4       |                                             |
| Total   | \$ 1,188,485                                |

#### Fraud Hotline

During the quarter ended March 31, 2017, Internal Audit received nine reports through OCTA's Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com). Four were referred to management for follow-up, one was referred to legal counsel for investigation, and one was referred to the County of Orange. Two more reports involved criminal activity not related to OCTA and the reporters were advised to contact local police. One report was investigated by Internal Audit and was not substantiated; however, process improvement recommendations were made in connection with the review.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended March 31, 2017, Internal Audit made initial contact within two business days.

#### Monitoring Activities – Metrolink Audit Results

Metrolink audit staff have indicated that a peer review has been scheduled for the week of April 17, 2017, and that results will be available in May 2017. Internal Audit will continue to monitor and report on these efforts.

#### 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 as Attachment B. Internal Audit includes 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, 2017, Internal Audit performed follow-up and removed one outstanding recommendation related to the Comprehensive Transportation Funding Program Audits. Follow-up of three more recommendations is underway as of the quarter end. Ten recommendations were added to the listing as a result of audits issued during the 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 2016-17 Internal Audit Plan, Third Quarter Update
- B. Outstanding Audit Findings and Recommendations (Audit Reports Issued Through March 31, 2017)

**Prepared by:**



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