



**July 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, Fourth Quarter Update

### **Overview**

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2016-17 Internal Audit Plan on July 25, 2016. 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 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, and agreed-upon procedures reviews. Audits initiated by entities outside of OCTA are coordinated through Internal Audit.

***Discussion***

The OCTA Internal Audit Department Fiscal Year (FY) 2016-17 Internal Audit Plan (Plan), Attachment A, reflects the status of each audit project as of year-end. Numerous projects were completed or are in progress. Two projects have not been initiated and will be carried over to the FY 2017-18 Plan.

For the Plan year, Internal Audit completed 35 projects, including 21 pre-award agreed-upon procedure reviews (price reviews) and two Buy America reviews. Twenty-two fraud hotline complaints were received. Three of the reports were not related to OCTA. All other reports were reviewed, investigated, and/or referred to management, legal counsel, or other authorities as appropriate. Three memos, with management recommendations, were issued as a result of investigations performed.

Internal Audit provided coordination of an incurred cost audit by California Department of Transportation (Caltrans) of five projects and provided results from the audit to the Finance and Administration Committee on July 13, 2016. OCTA management and staff continue to work with Caltrans on resolution to issues identified during the audit. A final response and determination as to the issues is due from Caltrans staff in December 2017. Internal Audit also provided coordination of a Proposition 1B audit by the Department of Finance, a Federal Emergency Management Agency review of Transit Security Grant Program funding, and the annual and financial compliance audits conducted by independent financial statement auditor, Vavrinek, Trine, Day & Company, LLP.

During the fourth quarter of FY 2016-17, Internal Audit issued an audit of investment management service contracts that included several concerns related to the procurement of treasury management software. Internal Audit recommended that management ensure compliance with procurement procedures and that adequate documentation be prepared and maintained. Internal Audit also recommended that management consider developing a policy with guidelines for the use of OCTA's logo by vendors, staff-provided testimonials, and staff participation in vendor case studies for marketing purposes. Internal Audit also made a recommendation to update agreements with investment managers. Management agreed and indicated that requirements will be re-enforced with staff, justification for decisions will be documented and on file, and consideration would be given to developing a policy related to logos and testimonials. Management also agreed to update the investment manager agreements.

Internal Audit also issued Investments: Compliance, Controls, and Reporting for the period July 1 through December 31, 2016, Internal Audit Report No. 17-510,

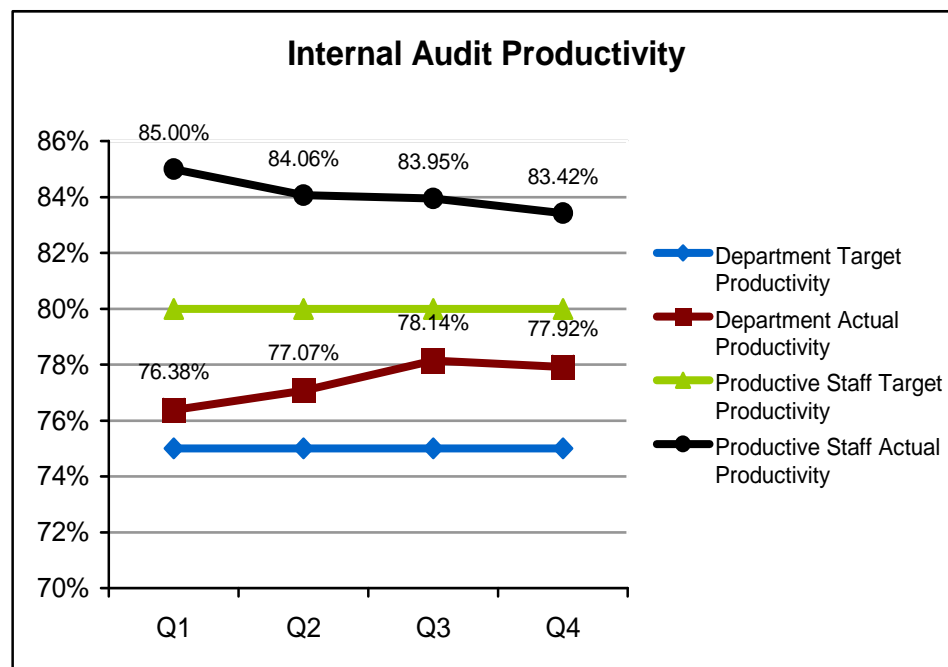
concluding that OCTA complied with its debt, investment, and reporting policies and procedures.

Also during the quarter, Internal Audit completed an audit of oversight controls and contract compliance related to agreements with Caltrop Corporation for public outreach for the West County Connectors Project. Based on the audit, contract oversight by the project manager, compliance with contract terms by the contractor, and invoice review controls were adequate.

#### Internal Audit Department 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.

By the quarter ended June 30, 2017, Internal Audit had achieved cumulative productivity of 78 percent, and the professional staff achieved cumulative productivity of 83 percent.



### Price Reviews

At the request of the Contracts Administration and Materials Management Department (CMM), and consistent with OCTA's procurement policy, Internal Audit conducts reviews of single bid procurements to ensure that CMM 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. During the fourth quarter, Internal Audit completed five price reviews. For the year ended June 30, 2017, a total of 21 price reviews were completed with recommended price adjustments, as indicated below:

Quarter	Price Reviews Recommended Adjustments
1	\$ 662,136
2	197,557
3	328,792
4	0
Total	\$ 1,188,485

### Fraud Hotline

During the quarter ended June 30, 2017, Internal Audit received four reports through OCTA's Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com). One report was not related to OCTA, and the other three reports were referred to management.

### Monitoring Activities – Metrolink Audit Results

During the quarter, a peer review of Metrolink's audit department was completed by the Association of Local Government Auditors. The peer review team presented the results of its review to Metrolink's Executive Management and Audit Committee, discussing the written recommendations related to the annual self-assessment requirement and verbal recommendations related to governance.

### 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 the findings and recommendations

generated internally, as well as those provided by OCTA's independent financial statement auditors.

During the quarter ended June 30, 2017, Internal Audit performed follow-up of four unresolved audit recommendations. Two recommendations made in the Customer Relations audit have been adequately addressed and removed from the listing. A recommendation related to management's oversight of cities' Senior Mobility Programs has not been fully implemented and will be reviewed again in six months. Similarly, a recommendation related to salary grade changes made in the Budget Development, Monitoring, and Reporting audit has not been fully implemented. Follow-up of four more recommendations is underway as of quarter end. Also, two recommendations were added to the listing as a result of audits issued during the quarter.

***Summary***

The OCTA FY 2016-17 Plan is being closed-out. Projects that are in process or have not started will be carried forward to the OCTA FY 2017-18 Plan. Internal Audit will continue to perform follow-up of all unresolved findings and recommendations.

***Attachments***

- A. Orange County Transportation Authority Internal Audit Department  
FY 2016-17 Internal Audit Plan, Fourth Quarter Update
- B. Outstanding Audit Findings and Recommendations, Audit Reports Issued  
through June 30, 2017

**Prepared by:**



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