



**October 25, 2017**

**To:** Finance and Administration Committee

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

Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Fiscal Year 2017-18 Internal Audit Plan, First Quarter Update

### **Overview**

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2017-18 Internal Audit Plan on August 14, 2017. Along with the first quarter update, a revision to the Fiscal Year 2017-18 Internal Audit Plan is being recommended.

### **Recommendations**

- A. Approve the revised Fiscal Year 2017-18 Internal Audit Plan.
- B. Receive and file the first quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2017-18 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.

In compliance with Government Auditing Standards, Internal Audit contacts OCTA legal counsel, prior to initiating audits, to inquire about any ongoing legal

proceedings or investigations with respect to the audit topic. Where legal or investigation activities are underway, Internal Audit will evaluate the impact to the audit and consider deferring all, or a portion, of the planned audit.

### ***Discussion***

The OCTA Internal Audit Fiscal Year (FY) 2017-18 Internal Audit Plan (Plan) (Attachment A) reflects all planned audits and the status of each project. The Plan also reflects recommended revisions. Specifically, Internal Audit is recommending that an audit of 91 Express Lanes Collection activities be removed from the Plan to avoid interfering with ongoing legal proceedings related to toll road collections. OCTA legal counsel has advised Internal Audit that audit activities should be deferred and will advise when legal matters have been resolved. Internal Audit recommends that the budgeted audit hours be transferred and used to perform planned audits of the Measure M2 Comprehensive Transportation Funding Programs (CTFP) projects. The CTFP audits are typically performed by an audit consultant; however, with the additional hours, Internal Audit staff could perform these audits using in-house resources, saving approximately \$60,000 in consultant costs. A small number of hours will also be added to the planned audit of the Interstate 405 (I-405) Improvement Project Management Contract.

During the first quarter of the FY, the firm of Sjoberg Evashenk Consulting, Inc., completed an audit of the OCTA Storm Water Pollution Prevention Program. The audit found that OCTA generally complied with the requirements for Industrial General Permits and Construction General Permits; however, the auditors made ten recommendations to improve compliance. Management agreed to implement corrective actions to address all recommendations.

Internal Audit also issued results of the semi-annual audit of Investments: Compliance, Controls, and Reporting for the period July 1 through December 31, 2016. Based on the audit, OCTA complied with its debt, investment, and reporting policies and procedures; however, two minor reporting errors were identified in the first and second quarterly investment and debt reports. Internal Audit recommended management enhance review procedures to ensure line items are validated and schedules are reconciled before finalizing the report. Management agreed and indicated that reconciliation procedures would be developed.

An audit of oversight controls and contract compliance related to the agreement with the Orange County Sheriff's Department for Transit Police Services found controls to be adequate, and noted that management has

worked to improve incident reporting for better oversight and more informed scheduling.

An audit of contracted fixed-route operations provided by First Transit, Inc., found that Transit Division management changed the threshold used to measure on-time performance (OTP) for both contracted and directly-operated fixed-route bus service, and did not disclose the change to the Board of Directors (Board). In addition, penalties for failure to meet preventative maintenance standards and missed trips were waived without adequate justification and documentation. Management responded that the OTP measurement was retroactively adjusted to reflect the original zero to five minute window and that future changes in methods used to collect data will be reported to the Board through quarterly performance reports. Management also indicated that procedures will be developed for documentation, approval, and reporting of penalty waivers.

A limited-scope audit of right-of-way activities related to the I-405 Improvement Project was completed and determined that administrative settlement and incentive program payments have been properly authorized and reported to the Board. However, Internal Audit recommended that management develop written procedures to address the frequency of reporting, and management responded that written procedures have been drafted.

A required audit of the State Transportation Improvement Program Planning, Programming and Monitoring Program for FY 2014-15, conducted by professional accounting firm BCA Watson Rice, LLP, was issued and found that project funds were used in conformance with Article XIX of the California State Constitution.

Region IX of the Grants Management Division of the Department of Homeland Security's Federal Emergency Management Agency issued the results of a financial monitoring review of Transit Security Grant Program funds awarded to OCTA in 2014 and 2015. No areas of non-compliance were noted.

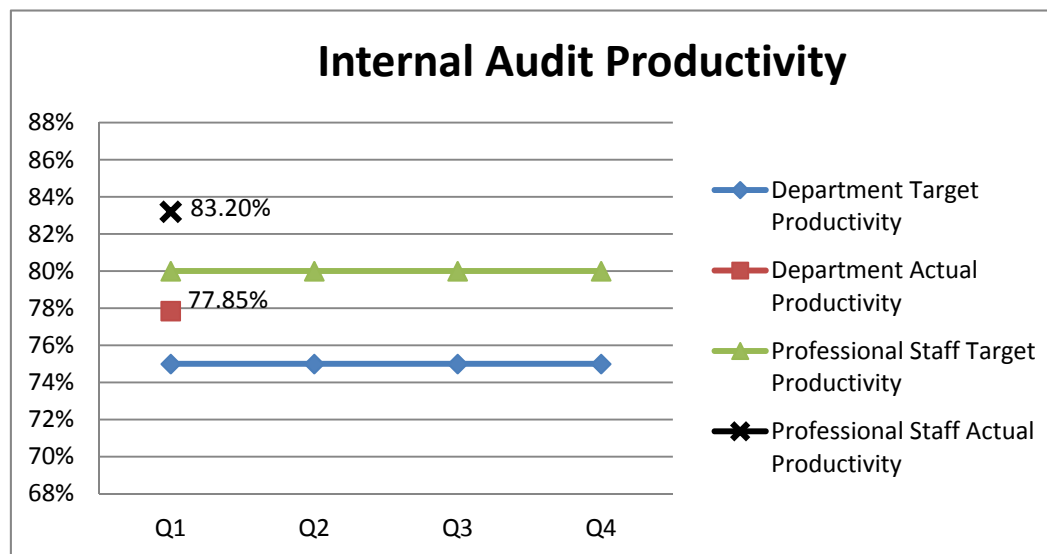
In addition to several ongoing audits, the primary focus of Internal Audit as of September 30, 2017, and in the ensuing months, will be to provide coordination of the annual financial audits and agreed upon procedure reviews conducted by Vavrinek, Trine, Day and Company, LLP.

#### **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 first quarter ended September 30, 2017, Internal Audit achieved productivity of 78 percent, and the professional staff achieved productivity of 83 percent.



### Price Reviews

At the request of the Contracts Administration and Materials Management Department (Camm), and consistent with OCTA procurement policy, Internal Audit conducts reviews of single bid procurements to ensure that Camm 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 September 30, 2017, Internal Audit conducted six pre-award agreed-upon procedures reviews and recommended price adjustments, as indicated below:

Quarter	Price Reviews Recommended Adjustments
1st	\$ 4,069
2nd	
3rd	
4th	
Total	\$ 4,069

### Fraud Hotline

During the quarter ended September 30, 2017, Internal Audit received nine reports through OCTA's Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com). One report was not applicable to OCTA, two reports were referred to Employee Relations, and five reports were referred to management. The last report is currently being investigated by Internal Audit. 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 September 30, 2017, 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 as 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 September 30, 2017, Internal Audit completed follow-up reviews of twelve unresolved audit recommendations. Four recommendations had been appropriately addressed by management and were removed from the list. Eight recommendations from audits of budget development and monitoring, Payment Card Industry Data Security Standards, accounts payable, and the Bristol Street widening-project remain open pending further actions by management. Follow-up of an additional seven recommendations is in process at quarter end.

Eighteen recommendations related to audits of the Storm Water Pollution Protection Program, contracted fixed route services, the semi-annual review of investments, and I-405 right-of-way acquisition activities were added to the list.

***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 2017-18 Internal Audit Plan, First Quarter Update
- B. Outstanding Audit Findings and Recommendations (Audit Reports Issued Through September 30, 2017)

**Prepared by:**



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