



Executive Office

 Chief Executive Officer
INTERNAL AUDIT POLICYPolicy#: EO-IA-220.01-INTERNALOrigination 03/01/2009Revised Date: 10/25/2017**I. PURPOSE**

The purpose of this policy is to establish the methods, guidelines and accountability for the Orange County Transportation Authority's (OCTA) Internal Audit Department.

II. ORGANIZATIONAL UNITS AFFECTED

This policy applies to all OCTA employees.

The Executive Director of Internal Audit is responsible for the administration of this policy; OCTA's Chief Executive Officer is responsible for ensuring cooperation between the Internal Audit Department and management in the execution of this policy. Management is responsible for establishing and enforcing adequate internal controls, responding to audit findings and recommendations, and the **timely implementation of corrective action related to deficiencies identified in audit reports.**

III. POLICY

It is the policy of OCTA to establish, maintain, and support an Internal Audit Department for the purpose of independent appraisal of OCTA operations. The Internal Audit Department will examine and evaluate financial, administrative, and operational activities of OCTA and supply management with information and recommendations to assist them in effective and efficient control of OCTA assets and operations. The Internal Audit Department will report the results of its activities to management and the Board of Directors (Board) to assist in the effective discharge of their fiduciary responsibilities. Internal Audit will refer to this policy at the outset of each audit engagement.

IV. DEFINITIONS

Not applicable.

V. PROCEDURE**A. Implementation of Policy**

The Executive Director of Internal Audit will implement this policy through activities including, but not limited to, the following:

1. Developing and executing a risk-based annual audit plan that incorporates evaluations of OCTA's internal accounting and operating controls, its safeguarding of assets, its compliance with contracts, laws and regulations, and its compliance with established OCTA policies and procedures.
2. Provide reports on the results of all audit activities to management and the Board.

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3. Provide reports of quarterly audit activity to the Board, including the status of the implementation of all audit recommendations, as follows:
 - a. Audit recommendations related to OCTA operating divisions and/or outside agencies that remain outstanding over 12 months will be reported to the Chief Executive Officer, and will be detailed in the next quarterly audit plan update to the F&A Committee. For recommendations outstanding over 12 months, management's explanation for the delay in implementation, and an estimate as to the percentage progress towards completion, will be added to the quarterly audit plan update.
 - b. Audit recommendations involving outside agencies that remain outstanding over 12 months without progress, will include additional detail in the next quarterly audit plan update to include management's explanation for the delay in implementation and an estimate as to the percentage progress towards completion. Also, these items will be specifically outlined to the Finance and Administration Committee during presentation of the quarterly audit plan update.
 - c. The status of recommendations related to annual financial statement audits will be provided by the independent financial statement audit firm each year.
4. Conducting ad-hoc reviews at the request of the Board, or other investigations or examinations related to fraud, illegal acts, violations of provisions of contracts or grant agreements, waste or abuse.
5. Coordinate and monitor audits by external auditors, including those conducted by independent financial statement auditors and state and federal officials.
6. Comply with Government Auditing Standards, as prescribed by the Comptroller General of the United States, and all other relevant and authoritative audit guidance.
7. Develop and maintain Internal Audit Department policies and procedures that comply with Government Auditing Standards.
8. Manage a professional audit staff with sufficient knowledge, skills, experience, and professional credentials to maintain compliance with Government Auditing Standards.
9. Develop and monitor a quality assurance program for the Internal Audit Department and contracting for a triennial Quality Assurance (Peer) Review of the Internal Audit Department.
10. Assist the Finance and Administration Committee of the Board in fulfilling its audit oversight responsibilities, as specified in "Audit Responsibilities of the Finance and Administration Committee" affirmed annually by the Board.

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B. Audit Protocols in Executing Annual Audit Plan

In executing its annual audit plan, the Internal Audit Department will employ protocols designed to clarify and provide consistency to the audit process. These protocols are in no way meant to restrict audit objectives, scope or access to records or information.

1. **Audit Notification Memorandum:** An introductory memorandum from Internal Audit will be prepared and sent to the executive director responsible for the project or program subject to audit. The introductory memorandum will:
 - a. Identify the project, program, or activities to be audited;
 - b. Identify the preliminary audit objectives
 - c. Inform the recipient that an entrance conference will be scheduled
2. **Planning:** During the planning process, the auditor will gain an understanding of the project or program to be audited. Planning, also referred to as survey work, includes review of relevant policies and procedures, contracts and financial information. Planning also includes interviews of key personnel. Planning is designed to assess risk and controls and define audit objectives and scope. Audit objectives reflect Internal Audit's goals in conducting the audit and may include elements such as ensuring adequate internal controls exist to protect OCTA assets, ensuring that there is compliance with agreement terms, or ensuring that a program is carried out in an efficient and effective manner. Audit scope refers to the nature, timing and extent of detailed tests of underlying transactions.
3. **Entrance Conference:** An entrance conference will be scheduled. Invitations will be extended to the executive director or his/her designee, the department manager, and any relevant staff (collectively, audit participants). The purpose of the entrance conference is to:
 - a. Introduce Internal Audit Department staff members who will perform the audit
 - b. Identify the project or program contact person with whom Internal Audit will work
 - c. Identify key documents or other information related to the project or program
 - d. Discuss preliminary audit objectives, scope and/or other areas of concern
 - e. Discuss audit timing and the final audit reporting process
4. **Audit Fieldwork:** Audit fieldwork generally includes detailed tests of internal controls and transactions. During the course of conducting fieldwork, Internal Audit Department staff will advise the Executive Director of Internal Audit of any significant findings or concerns, including those which will require a significant deviation from, or additions to, the planned objectives or scope of the audit. Internal Audit will communicate such scope changes or significant findings to management.

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5. **Draft Report:** A preliminary draft audit report will be circulated to all audit participants prior to the exit conference. Draft reports are considered unofficial working papers, subject to revisions and will, therefore, remain restricted, in use and distribution, to the Internal Audit Department and audit participants.
 6. **Exit Conference:** An exit conference will be held with audit participants. The purpose of the exit conference is to:
 - a. Confirm the accuracy of all information presented in the draft report
 - b. Determine if pertinent information and data has been considered
 - c. Answer questions about the recommendations and findings
 - d. Discuss proposed revisions or changes
 - e. Discuss the audit responses and identify an agreed upon due date for responses to be provided
 - f. Discuss input or suggestions regarding the audit process
 7. **Final Draft:** Following the exit conference, agreed-upon revisions will be made to the draft report and the report will be re-circulated to audit participants.
 8. **Responses to Recommendations:** Responses to audit recommendations will be prepared by management and submitted to Internal Audit. In general, responses should state whether or not management agrees with the findings and recommendations. Responses should be specific as to what changes will be implemented and target completion dates for implementation should also be provided. The Chief Executive Officer will be advised of any significant findings and recommendations for which there is disagreement between management and Internal Audit concerning fact, finding, or recommendation.
 9. **Report Distribution:** Responses to audit recommendations will be incorporated into the final draft report and the audit report will be issued to all audit participants.
 10. The Executive Director of Internal Audit will prepare and circulate a draft staff report to management, along with the date the audit report will be included on the Finance and Administration Committee agenda.
- C. Follow-Up Reviews and Ad-hoc Audit Requests**

Follow-up audits, generally conducted six months after the issuance of an audit report, and every six months thereafter until all recommendations have been satisfactorily addressed, will include a notification memorandum and periodic closeout memorandums addressed to management. Memorandums related to audit recommendations that have not been adequately addressed by management after 12 months will be copied to the Chief Executive Officer and the circumstances detailed in the following quarterly audit plan update to the F&A Committee.

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From time to time, management or the Board of Directors may request ad-hoc audits or reviews of projects, programs or activities. Protocols for such audits or reviews will be consistent with those enumerated above. Reports issued pursuant to these requests will be provided to the Finance and Administration Committee and included in Internal Audit's quarterly reports to the Board of Directors.

D. Fraud, Illegal Acts, Violations of Provisions of Contracts or Grant Agreements, Waste or Abuse Investigations

Government Auditing Standards prescribe internal auditors' responsibilities for considering fraud, illegal acts, violations of provisions of contracts or grant agreements, waste or abuse during their planning for, and execution of, audits. The Internal Audit Department will conduct investigations of all identified or alleged instances of fraud, illegal acts, violations, waste or abuse and document the disposition in audit workpaper files. Where Internal Audit concludes, based on sufficient, appropriate evidence, that fraud, illegal acts, significant violations of provisions of contracts or grant agreements, or significant abuse either has occurred or is likely to have occurred, the matter(s) will be reported to management, Chief Executive Officer, and/or the Board of Directors, as appropriate, for suitable action.

The Internal Audit Department will be responsible for managing OCTA's Fraud Hotline. All reported instances of fraud, illegal acts, violations of provisions of contracts or grant agreements, waste or abuse will be investigated and disposition documented in the Ethicspoint system and hard copy files maintained by Internal Audit. Internal Audit will communicate results of these investigations to management, Chief Executive Officer, and/or the Board of Directors as appropriate under the circumstances.

E. Independence and Record Access

As a means of ensuring independence, the Internal Audit Department will report to the Chief Executive Officer and Board. Internal Audit shall have full, free, and unrestricted access to all operations, records, property, and personnel within OCTA.

All employees will cooperate fully in making available material or information requested by an internal auditor.

The Internal Audit Department shall have no authority over, or responsibility for, any of the activities audited, and shall not perform any functions that might require subsequent audit.

The Board has authorized the Internal Audit Department to perform, or sanction others to perform, internal audits within OCTA. Therefore, only personnel within the Internal Audit Department should be referred to as internal auditors and only their work should be referred to as internal audit activities. OCTA employees performing work involving review and verification of various aspects of OCTA operations should not be referred to as auditors and their work should not be referred to as audits or audit activities.

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All external audits of OCTA will be coordinated through or with the Executive Director of Internal Audit, including audits conducted by state, federal, or local officials. From time to time, the Internal Audit Department will retain the services of audit consultants to supplement internal audit staff and assist with internal audits and reviews. Audit consultants will be selected using OCTA's approved procurement process, and will comply with this policy.

The Contracts Administration and Materials Management Department will ensure that provision is made in all contracts and agreements for examinations by Internal Audit of the counterparty's books and records relating to such contracts and agreements.

VI. EXCEPTIONS

Not applicable.

VII. PROVISIONS AND CONDITIONS

Not applicable.

VIII. RELATED DOCUMENTS

Not applicable.

END OF POLICY