



January 24, 2018

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, Second 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. This update is 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 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 2017-18 Internal Audit Plan (Plan) (Attachment A) reflects all planned audits and the status of each project. During the quarter, Internal Audit issued the results of an audit of employee health benefits. Based on the audit, controls in place to ensure proper enrollment, accounting, and compliance with laws, regulations, policies, and procedures are generally adequate; however, recommendations were made to develop and implement procedures for verification of Health Savings Account contribution payments and for collection of insurance premiums in arrears. Also, Internal Audit recommended that management consider clarifying the policy governing health plan participation.

Also during the quarter, Internal Audit issued results of a pre-award Buy America agreed-upon procedures review of the purchase of six, 40-foot compressed natural gas buses from New Flyer. Based on the procedures performed, the vehicles will contain domestically manufactured components representing costs of at least 60 percent of the cost of the vehicle.

The primary focus of Internal Audit during the quarter was to provide coordination of the annual financial audits and agreed-upon procedure reviews by OCTA's independent financial statement auditor, Vavrinek, Trine, Day & Company, LLP (VTD). All audits and agreed-upon procedures reviews, except for those related to individual cities, were issued during the quarter. In connection with the audits, VTD made five recommendations to management for improvement to internal controls. Four of the recommendations related to enhanced information system security and one related to compliance with procurement procedures. Management agreed with the recommendations and outlined actions to address the issues.

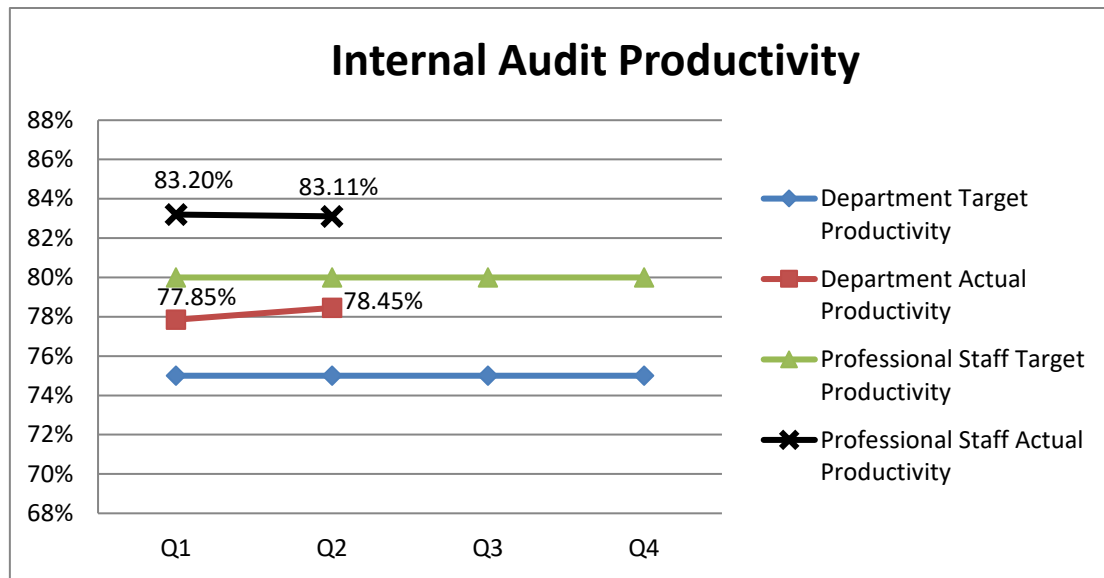
Several audit projects are underway at quarter end, and the procurement of an expert consultant to conduct a risk assessment of the OCTA information systems environment is in progress.

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 second quarter ended December 31, 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 (CMM), and consistent with OCTA 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. When the value of recommended adjustments can be estimated, Internal Audit tracks and reports the potential savings, as noted below. During the quarter ended December 31, 2017, Internal Audit conducted seven pre-award agreed-upon procedures reviews and recommended price adjustments, as indicated below:

| Quarter | Recommended Price Adjustments |
|---------|-------------------------------|
| 1st | \$ 4,069 |
| 2nd | 538,528 |
| 3rd | |
| 4th | |
| Total | \$ 542,597 |

Fraud Hotline

During the quarter ended December 31, 2017, Internal Audit received eight reports through OCTA's Fraud Hotline, www.ethicspoint.com, and completed an investigation related to a report received during the first quarter. Of the new reports, one concerned an issue that had been recently identified and reported during an audit of Contracted Fixed-Route Services. The remaining seven reports were referred to the police, another agency, and/or customer service as appropriate, based on the subject matter. As part of the administration of the hotline, Internal Audit maintains documentation of each complaint and its disposition.

During the quarter, based on concerns expressed by the Transit Division, an Investigation and Limited Scope Review of the Senior Mobility Program (SMP) operated by the Korean American Senior Association of Orange County (KASA) was issued. The investigation confirmed that KASA had not made trips available to those requiring wheelchair accessibility and that some trips provided were not outlined in the current service plan agreement. Internal Audit also identified unsupported costs charged to the SMP and non-compliance with the program's minimum age requirement. Internal Audit recommended that management continue oversight activities and report any future non-compliance to the Board of Directors for consideration as to future funding of the program. Management responded they are not confident that compliance can be ensured, even with an enhanced level of oversight. Management is recommending that the agreement with KASA be terminated and that a 90-day termination notification be sent to KASA.

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

Outstanding Audit Recommendations Tracking

At the request of the Finance and Administration Committee, a listing of unresolved audit recommendations is 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 outside regulatory auditors.

During the quarter ended December 31, 2017, Internal Audit completed follow-up reviews of nine outstanding audit recommendations. Seven recommendations had been appropriately addressed by management and were removed from the list. Two recommendations from audits of OCTA Policies and Procedures and Investment Management Service Contracts remain open pending further actions by management. Follow-up of an additional three recommendations is in-process at quarter end.

Seven recommendations from the Audit of Employee Health Benefits and the Investigation and Limited Scope Review of the Senior Mobility Program operated by the Korean American Senior Association 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, Second Quarter Update
- B. Outstanding Audit Recommendations (Audit Reports Issued Through December 31, 2017)

Prepared by:



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