





April 25, 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, Third 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 third quarter of the fiscal year.

Recommendation

Receive and file the third 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.

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 purchasing cards and found that controls to ensure transactions are valid, authorized, and in compliance with policies and procedures are generally adequate. Three recommendations were offered to improve oversight of compliance with the policies and procedures. Management agreed with the recommendations and indicated that enhancements would be implemented.

Internal Audit also issued the semi-annual audit of investments for the period July 1 through December 31, 2017, and concluded that OCTA complied with its debt, investment, and reporting policies and procedures for the period.

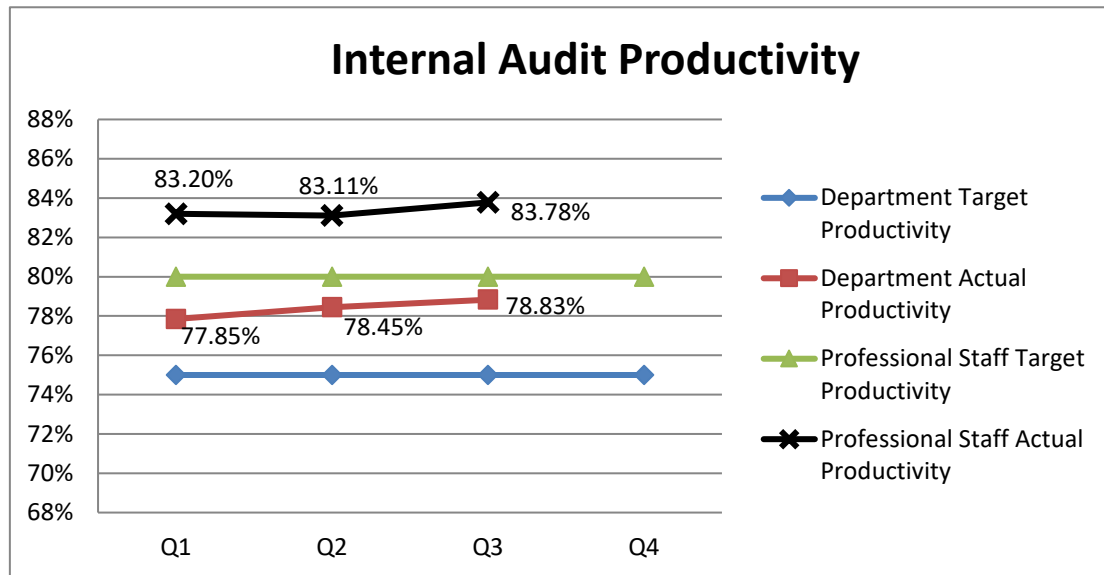
An audit of the cooperative agreement with Metrolink for the Control Point Fourth Project was also completed and identified weaknesses in procurement processes by Metrolink. Internal Audit recommended that OCTA project managers exercise additional oversight to ensure proper procurement procedures are employed for OCTA projects. Management agreed and indicated that additional steps will be taken going forward.

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. The AUP were applied to the cities of Cypress, Irvine, Laguna Beach, Los Alamitos, Rancho Santa Margarita, San Clemente, San Juan Capistrano, and Villa Park in relation to Local Fair Share (LFS) funding, and the cities of Buena Park, Costa Mesa, Laguna Niguel, Laguna Woods, San Clemente, and San Juan Capistrano in relation to Senior Mobility Program (SMP) funding. Observations were made relating to the classification of Maintenance of Effort expenditures, indirect charges not properly supported, errors in reporting of amounts on required activity reports and annual expenditure reports, and service contractor procurement. OCTA program management staff will perform follow-up with the cities to ensure corrective action is taken, as applicable.

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 March 31, 2018, Internal Audit achieved productivity of 79 percent, and the professional staff achieved productivity of 84 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management Department (CAMP), 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, 2018, Internal Audit conducted five pre-award agreed-upon procedures reviews and recommended price adjustments, as indicated below:

Quarter	Recommended Price Adjustments
1st	\$ 4,069
2nd	538,528
3rd	51,072
4th	
Total	\$ 593,669

Fraud Hotline

During the quarter ended March 31, 2018, Internal Audit received eight reports through OCTA's Fraud Hotline, www.ethicspoint.com. Of the reports received, five were referred to management and/or customer service and three reports were investigated by Internal Audit. For two of the three reports, allegations made were not substantiated. The last investigation is still underway at quarter end.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended March 31, 2018, 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 outstanding audit recommendations is included with the quarterly updates to the Plan as Attachment B.

For the quarter ended March 31, 2018, Internal Audit completed follow-up reviews of 17 outstanding audit recommendations. Fourteen recommendations had been appropriately addressed by management and are reflected at Attachment C. Three recommendations from the audit of budget development, monitoring and reporting have been partially addressed, but will remain open pending completion of the current year budget process and additional testing by Internal Audit. Follow-up of another eight recommendations is in-process at quarter end.

Five recommendations from the audit of purchasing cards, the cooperative agreement with Metrolink for Control Point Fourth Project, and audits by VTD of selected cities' LFS and SMP 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, Third Quarter Update
- B. Outstanding Audit Recommendations (Audit Reports Issued Through March 31, 2018)
- C. Audit Recommendations Closed During Third Quarter, Fiscal Year 2017-18

Prepared by:



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