



**July 25, 2018**

**To:** Finance and Administration Committee

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

Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Fiscal Year 2017-18 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 2017-18 Internal Audit Plan on August 14, 2017. 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 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, 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) 2017-18 Internal Audit Plan (Plan), Attachment A, reflects the status of each audit project as of year-end. All planned audit projects have been completed or are in-progress at year end.

For the Plan year, Internal Audit completed 39 projects, including 26 pre-award agreed-upon procedure reviews (price reviews), 12 internal audits, and one Buy America review. Thirty fraud hotline complaints were received and reviewed, resulting in two limited-scope review reports, with recommendations to improve oversight and controls.

Internal Audit also provided coordination of an audit covering \$110.8 million in Proposition 1B funds conducted by the California Department of Finance, an on-site financial monitoring review covering \$1.1 million in Transit Security Grant Program funding, an audit of payroll transmittals conducted by the Orange County Employees Retirement System, and an on-site grant monitoring review covering \$3.5 million in California Transit Security Grant Program funds by the California Governor's Office of Emergency Services.

During the fourth quarter of FY 2017-18, Internal Audit issued an audit of the Fleetwatch Fluid Management System and concluded that controls in place over the dispensing of fuel and other consumables are adequate; however, one recommendation was offered regarding enhanced system access controls and periodic monitoring of user access assignments. Management agreed and indicated that procedures will be developed.

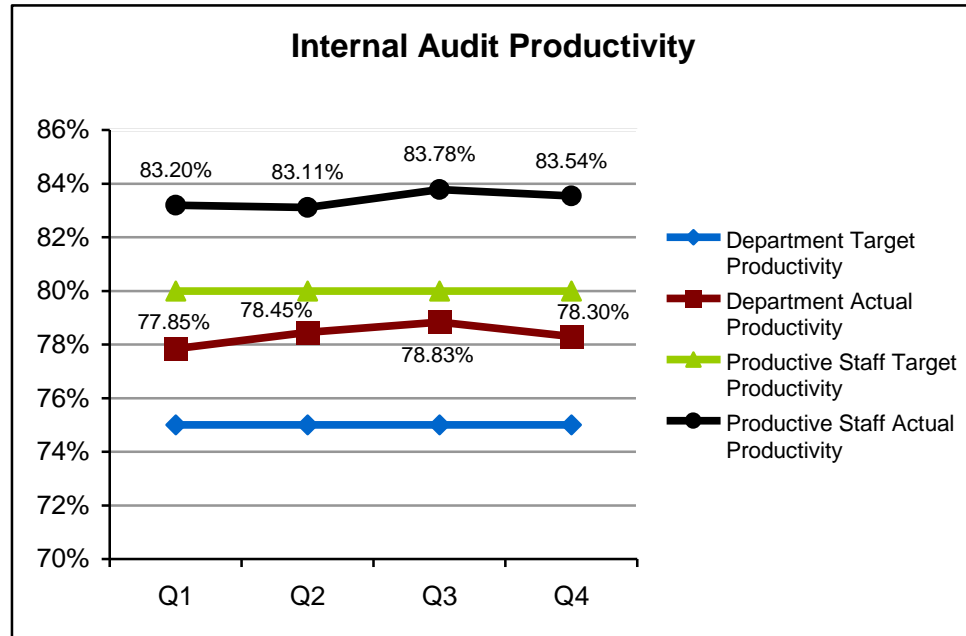
Internal Audit also issued an audit of Ralph M. Brown Act (Act) compliance and found that the OCTA operated substantially in compliance with the Act; however, some instances of non-compliance with agenda posting requirements were identified. A recommendation was made to provide staff training and/or enhance procedures to ensure consistent compliance. Management agreed and indicated that procedural enhancements have been implemented.

**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 (Camm), and consistent with OCTA's 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. During the fourth quarter, Internal Audit completed nine price reviews. For the year ended June 30, 2018, a total of 26 price reviews were completed with recommended price adjustments, as indicated below:

Quarter	Recommended Price Adjustments
1st	\$ 4,069
2nd	538,528
3rd	51,072
4th	0
Total	\$ 593,669

### Fraud Hotline

During the quarter ended June 30, 2018, Internal Audit received five reports through OCTA's Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com). Three reports were referred to management. One report was investigated by Internal Audit and the results reported to management for disposition, and a second report is under investigation at quarter end.

### 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 June 30, 2018, Internal Audit completed follow-up reviews of 20 outstanding audit recommendations. Fourteen recommendations had been appropriately addressed by management and are reflected at Attachment C. Two recommendations from the audit of Payment Card Industry Data Security Standards Compliance have been partially addressed, but will remain open until management takes additional action. Three recommendations from the audit of Administrative Employee Health Benefits also remain open pending management's development of certain policies and procedures. Finally, one recommendation from the audit of Contracted Fixed-Route Operations remains open until the new system to track insurance and bond requirements is fully operational.

One recommendation from the audit of the Fleetwatch Fluid Management System and another from the audit of Brown Act Compliance were added to the list.

***Summary***

The OCTA FY 2017-18 Plan is being closed-out. Projects that are in process will be carried forward to the OCTA FY 2018-19 Plan. Internal Audit will continue to perform follow-up of all outstanding findings and recommendations.

***Attachments***

- A. Orange County Transportation Authority Internal Audit Department  
Fiscal Year 2017-18 Internal Audit Plan, Fourth Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through  
June 30, 2018
- C. Audit Recommendations Closed During Fourth Quarter, Fiscal Year 2017-18

**Prepared by:**



Janet Sutter  
Executive Director, Internal Audit  
714-560-5591