



October 24, 2018

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2018-19 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 2018-19 Internal Audit Plan on August 27, 2018. This update is for the first quarter of the fiscal year.

Recommendation

Receive and file the first quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2018-19 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. In addition, audits initiated by entities outside of OCTA are coordinated through Internal Audit.

Discussion

The OCTA Internal Audit Fiscal Year (FY) 2018-19 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project.

During the first quarter of the FY, Internal Audit issued the results of an audit of project management contracts related to the Interstate 405 Improvement Project. The audit found that while project management consultants were procured in compliance with policy and contract amendments were approved by the Board of Directors on multiple occasions, amendments were back-dated outside the limits outlined in procedures. Also, while cost estimates were submitted to support amendments to increase the contract maximum obligation, management did not validate all the listed labor rates. Internal Audit also identified excessive use of labor classifications and a lack of controls over labor rate increases for personnel billed within these classifications. Finally, Internal Audit identified concerns related to oversight of consultant staff time. Recommendations were made to address these conditions, and management agreed and indicated that additional controls would be implemented.

Internal Audit also issued results of an audit of warranty administration. Based on the audit, controls over identification, processing, and reporting of warranty claims are adequate; however, one recommendation was made to document procedures used to derive the value of warranty labor. Management agreed with the recommendation and indicated that a formal process will be implemented.

A required audit of the State Transportation Improvement Program Planning, Programming and Monitoring Program for Fiscal Year 2015-16, completed by the professional accounting firm of BCA Watson Rice LLP, found that project funds were used in conformance with Article XIX of the California State Constitution.

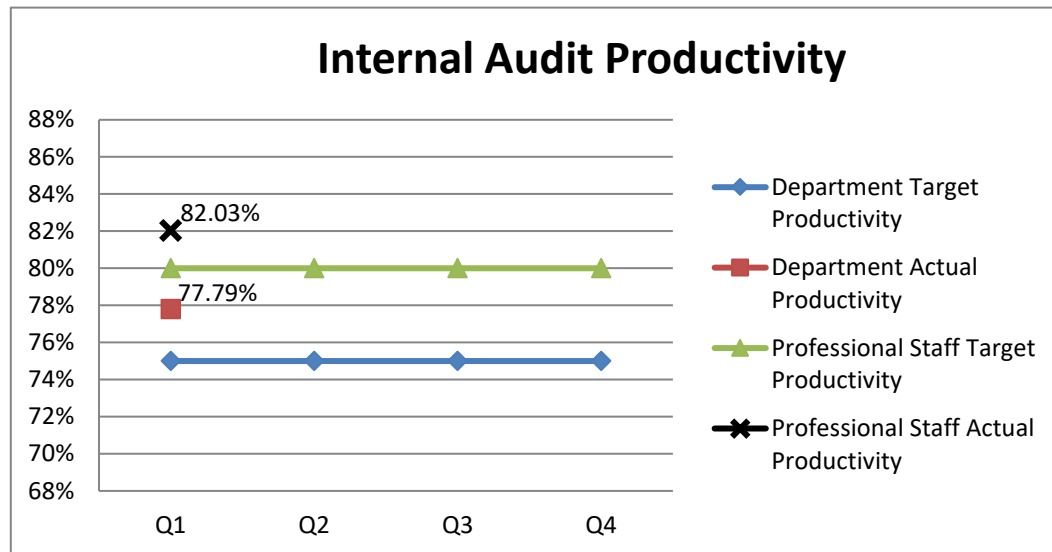
In addition to several ongoing audits, Internal Audit has procured the firm Kimley-Horn and Associates, Inc., to conduct the required State Triennial Performance Audits of OCTA, the Orange County Transit District, and Laguna Beach Municipal Transit Lines. These audits will commence in the coming weeks. In addition, Internal Audit is leading the procurement of an independent public accounting firm to perform annual financial audits and agreed-upon procedures reviews of OCTA and related agencies for the FYs ending June 30, 2019, 2020, and 2021.

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, 2018, Internal Audit achieved productivity of 78 percent, and the professional staff achieved productivity of 82 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. During the first quarter, Internal Audit issued results of two price reviews.

Fraud Hotline

During the quarter ended September 30, 2018, Internal Audit received eight reports through OCTA's Fraud Hotline, www.ethicspoint.com. Based on the nature of the complaints, all eight reports were referred to management for disposition. 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, 2018, 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, 2018, Internal Audit completed follow-up reviews of twelve unresolved audit recommendations. Nine recommendations had been appropriately addressed by management and were removed from the list (Attachment C). Three recommendations from the employee health benefits audit remain open to allow for implementation of new procedures. Follow-up of an additional two recommendations is in process at quarter end.

Five recommendations related to audits of the Interstate 405 Improvement Project project management contracts and warranty administration were added to the list. In addition, one recommendation resulting from follow-up of the contracted fixed-route operations audit was 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 2018-19 Internal Audit Plan, First Quarter Update
- B. Outstanding Audit Recommendations (Audit Reports Issued Through
September 30, 2018)
- C. Audit Recommendations Closed During First Quarter, Fiscal Year 2018-19

Prepared by:

A handwritten signature in dark ink, appearing to read 'Janet Sutter', with a long horizontal flourish extending to the right.

Janet Sutter
Executive Director, Internal Audit
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