



January 23, 2019

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, Second 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 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 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 second quarter of the FY, Internal Audit issued the results of an audit of ACCESS services provided by MV Transportation, Inc. Based on the audit, the reservation and scheduling process, invoice approval procedures, and drug and alcohol program monitoring controls are adequate. However, improvements to contract amendment policies, calculation of call center hold-times, and monitoring of preventive maintenance, performance bond requirements, and farebox revenue reconciliations are recommended. In response, management agreed to consider a procurement policy change and to implement corrective action in other areas.

Internal Audit also completed audits of eight projects funded under the Measure M2 Comprehensive Transportation Funding Programs (Program). Projects by the cities of Anaheim, Costa Mesa, Fullerton, Irvine, La Habra, and Tustin, as well as a project by the County of Orange were found to have been completed in accordance with Program guidelines, applications, and agreements. Two recommendations were made to the City of Orange (City) related to a project under the Safe Transit Stops program. The City agreed with the recommendations and indicated that improvements would be made.

The semi-annual audit of investments concluded that OCTA complied with its debt, investment, and reporting policies and procedures during the period July 1 through December 31, 2018.

In addition to several ongoing audits, Internal Audit continued to provide coordination of the ongoing State Triennial Audit by Kimley-Horn, and the annual financial audits and agreed-upon procedures reviews by independent accounting firm, Vavrinek, Trine, Day and Company, LLP. The Federal Transit Administration also notified OCTA of its intent to conduct the Federal Triennial Review between March and September 2019.

Internal Audit also led 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.

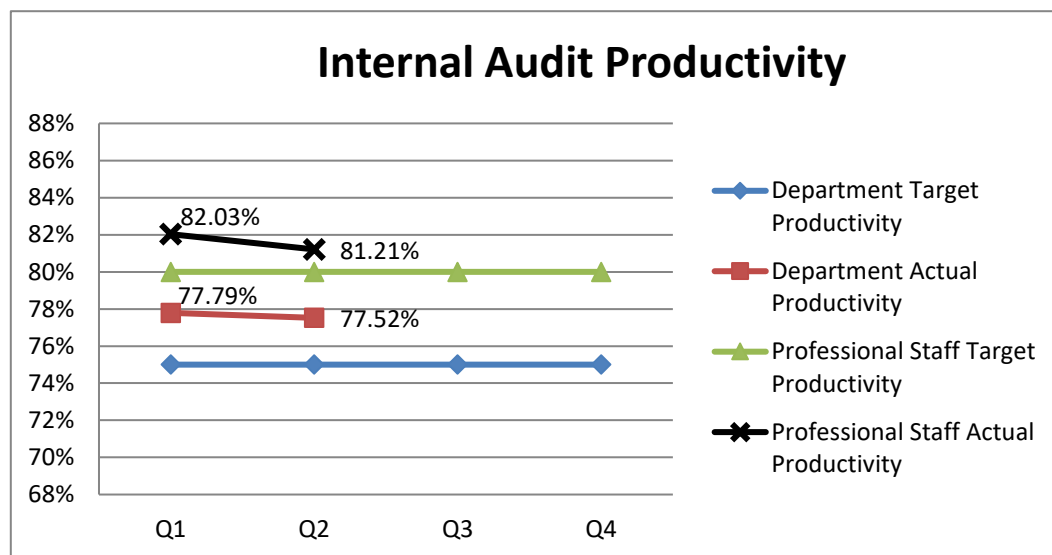
Finally, Internal Audit provided staffing to participate in the peer review of another internal audit department in exchange for earning reciprocal credit towards the required peer review of OCTA Internal Audit, which has been scheduled for February 2019.

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, 2018, Internal Audit achieved productivity of 78 percent, and the professional staff achieved productivity of 81 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. During the second quarter, Internal Audit issued results of nine price reviews.

Fraud Hotline

During the quarter ended December 31, 2018, Internal Audit received seven reports through OCTA's Fraud Hotline, www.ethicspoint.com. Based on the nature of the complaints, three were referred to management for disposition, one reporter was referred to the local police department, one complaint lacked sufficient information for investigation, and another complaint did not involve OCTA. One of the complaints was investigated and substantiated by Internal Audit. The matter was referred to the Chief Executive Officer for disposition.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended December 31, 2018, Internal Audit made initial contact within eight 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 December 31, 2018, Internal Audit completed follow-up reviews of six unresolved audit recommendations. Three 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 and testing of new procedures.

Five recommendations related to the ACCESS Service audit and two recommendations from the audits of eight Comprehensive Transportation Funding Program Projects 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 2018-19 Internal Audit Plan, Second Quarter Update
- B. Outstanding Audit Recommendations (Audit Reports Issued Through
December 31, 2018)
- C. Audit Recommendations Closed During Second Quarter, Fiscal Year 2018-19

Prepared by:



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