



**March 13, 2019**

**To:** Finance and Administration Committee

**From:** Darrell E. Johnson, Chief Executive Officer  
Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Orange County Transportation Authority Internal Audit Department  
Peer Review

### **Overview**

An external quality assurance, or peer, review has been completed of the Internal Audit Department of the Orange County Transportation Authority. The peer review found that the Internal Audit Department's quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Generally Accepted Government Auditing Standards for the period January 1, 2016 through December 31, 2018. The peer review team also provided a management letter with two suggestions to further strengthen the internal quality control system.

### **Recommendation**

Direct the Internal Audit Department to implement the suggestions provided by the Association of Local Government Auditors in a letter dated February 7, 2019.

### **Background**

Generally Accepted Government Auditing Standards (GAGAS), issued by the United States Government Accountability Office, set professional standards for the performance of government audits. One of the GAGAS standards is that audit departments undergo an external quality assurance, or peer, review once every three years. Internal audit departments may either engage an independent audit firm to have the peer review performed, or participate in a peer review program of a recognized professional association.

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) sought the assistance of the Association of Local Government Auditors (ALGA) to perform the peer review. ALGA's peer review program is well developed and is rotational in nature. By volunteering on peer review teams of other agencies, Internal Audit received this reciprocal peer review at minimal cost to OCTA.

The peer review was performed during the week of February 4, 2019.

### ***Discussion***

The peer review process began a few months prior to the site visit. Internal Audit worked with an ALGA peer review coordinator to schedule the review. The coordinator solicited volunteers nationally and evaluated those volunteers' independence with regard to OCTA and Internal Audit personnel. The peer review team assembled for OCTA's peer review included the City Auditor of Denton, Texas and an Assistant City Auditor from the City of Dallas, Texas.

Prior to the site visit, the peer review team was provided with Internal Audit's policies and procedures manual, organizational chart and staff information, OCTA background information, an inventory of all audits completed during the three year period, and a description of Internal Audit's quality control system.

Once on site, the peer review team conducted interviews of staff, reviewed audit workpapers, reports, quarterly audit plan updates, and other documents produced by Internal Audit. The peer review team also evaluated Internal Audit's independence and reviewed staff training records.

The peer review team concluded that Internal Audit's quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with GAGAS for the period January 1, 2016 through December 31, 2018. The report on compliance with GAGAS can be found at Attachment A.

In addition to issuing its report on compliance with GAGAS, the peer review team provided Internal Audit with a management letter (Attachment B). The peer review team recognized Internal Audit for its organized and easy to follow audit workpapers, its well-documented policies and procedures, and its highly skilled and experienced staff members. Also, the team recognized OCTA management and the Chairman of the Finance and Administration Committee for their appreciation of the Internal Audit function.

The peer review team also provided two recommendations related to the inclusion of language in audit reports to indicate the evaluation of internal controls and inclusion of language to communicate the nature of Internal Audit's role when participating in annual Bus Base Inspections. Internal Audit agreed and has revised audit report templates and the agreement with management for participation in bus base inspections to include these recommended disclosures. Internal Audit's complete response can be found at Attachment C.

### ***Summary***

A peer review has been completed of Internal Audit. The peer review found that Internal Audit's quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with GAGAS for the period January 1, 2016 through December 31, 2018. The peer review team provided two suggestions to further strengthen the internal quality control system.

### ***Attachments***

- A. External Quality Control Review Orange County Transportation Authority Internal Audit Department
- B. Letter from Umesh Dalal, CPA, CIA and Bob Smith, CPA, to Janet Sutter, Executive Director of Internal Audit, dated February 7, 2019
- C. Letter from Janet E. Sutter, Executive Director, Internal Audit, to ALGA Peer Review Team Leader Umesh Dalal, City Auditor, dated February 8, 2019

**Approved by:**



Janet Sutter  
Executive Director, Internal Audit  
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