



April 24, 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, Third 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 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 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 third quarter of the FY, Internal Audit issued the results of an audit of the Interstate 5 (I-5) High Occupancy Vehicle (HOV) Improvement Project: Pacific Coast Highway (PCH) to San Juan Creek Road. Based on the audit, project consultants were procured in compliance with OCTA policy; however, some concerns were identified related to amendment processing. Also, invoices were generally paid in compliance with contract terms; however, one consultant was paid more than the contractually allowed amount for a specified task. Finally, while project progress is monitored and reported, a written Project Management Plan outlining the scope of work, constraints, and technical requirements of the project was not prepared as required.

Internal Audit also completed an audit of Rail Right-of-Way Maintenance and found program oversight controls to be adequate and determined that the contractor, Joshua Grading & Excavating, Incorporated, complies with contract terms.

Also, during the quarter, Internal Audit shared results of an audit by the Orange County Employee Retirement System auditors. The auditors concluded that OCTA payroll transmittals during the period from January 2016 through December 2017, were accurate and complete.

The California Department of Transportation (Caltrans), Division of Local Assistance, issued a letter on January 9, 2019, notifying OCTA of its determination of required corrective actions to be taken to address deficiencies identified in the Caltrans Incurred Cost Audit, issued April 26, 2016. OCTA has been asked to reimburse \$450,393 of right-of-way costs, revise policy and procedure manuals, and obtain staff training by May 2, 2019. Staff is working on responses to these final determinations.

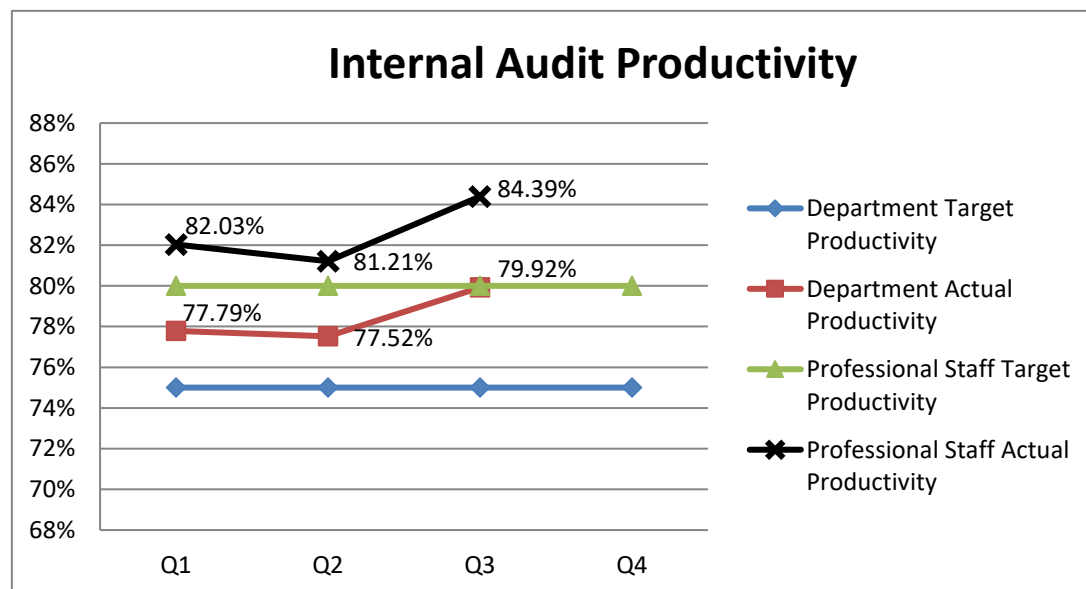
Vavrinek, Trine, Day & Company, LLP, OCTA's independent accounting firm, issued results of agreed-upon procedures applied to Measure M2 Local Fair Share funds provided to eleven cities, and Senior Mobility Program funds provided to four cities, for the FY ended June 30, 2018. Local Fair Share program reports included observations of ineligible Maintenance of Effort expenditures, allocation of unsupported indirect charges, reporting errors, insufficient interest allocation, and funded projects not reflected in Seven-Year Capital Improvement Program plans. Senior Mobility Program audits included observations relating to late submission of monthly reports, reporting errors, lack of evidence of competitive procurement of third-party vendors, missing contract provisions, and participant and trip eligibility. Staff is developing recommendations to the Board of Directors for actions to be taken to address some of the conditions identified and has agreed to follow-up with cities to confirm implementation of corrective actions proposed.

Finally, an external quality assurance review was completed of Internal Audit and found that Internal Audit'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. Both suggestions have been implemented.

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 third quarter ended March 31, 2019, Internal Audit achieved productivity of 80 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. During the third quarter, Internal Audit issued results of seven price reviews.

Fraud Hotline

Internal Audit is responsible for administering the OCTA Fraud Hotline. The Ethicspoint fraud hotline system allows reporters to file complaints anonymously through either the Internet or using a toll-free phone number. Complaints may also be received in person, by phone, or by mail directly to Internal Audit. To ensure proper recordkeeping, all complaints are recorded in the Ethicspoint system, regardless of how the complaint is received.

During the quarter ended March 31, 2019, Internal Audit received ten complaints. Based on the nature of the complaints, seven were referred to management for follow-up and disposition, one reporter was referred to the appropriate outside agency, and one investigation was conducted. One of the ten complaints was not decipherable.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended March 31, 2019, 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 March 31, 2019, Internal Audit completed follow-up reviews of nine unresolved audit recommendations. Eight recommendations had been appropriately addressed by management and were removed from the list (Attachment C).

Three recommendations related to the I-5 HOV Improvement Project: PCH to San Juan Creek Road audit were added to the list. Also added is a summary item to track observations made during audits of selected cities' compliance with the Measure M ordinance and guidelines for Local Fair Share and Senior Mobility Program funding.

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, Third Quarter Update
- B. Outstanding Audit Recommendations (Audit Reports Issued Through March 31, 2018)
- C. Audit Recommendations Closed During Third Quarter, Fiscal Year 2018-19

Prepared by:



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