



July 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, Fourth 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 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 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, and agreed-upon procedures reviews. 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 audit project as of year-end. Thirteen projects were completed during the year and six more are in progress. One project has not been initiated and will be carried over to the FY 2019-20 Plan.

For the Plan year, Internal Audit completed 42 projects, including 29 pre-award agreed-upon procedure reviews (price reviews), 12 internal audits, and one Buy America review. Internal Audit also underwent an external quality assurance review, as required by Generally Accepted Government Auditing Standards, for the period January 1, 2016 through December 31, 2018, and received an unqualified opinion.

During the fourth quarter, Internal Audit issued results of an audit of mobile ticketing operations. The audit concluded that controls over revenue collection, recording, reconciliation, and invoice review are adequate, and the contractor complies with contract terms. Two recommendations were made to improve system access controls and to develop written policies and procedures. Management agreed and indicated that recommendations will be implemented.

An audit of recruitment and employment operations was also completed and found that controls to ensure compliance with recruitment policies are generally adequate and functioning; however, a few instances of non-compliance with requirements were noted. Internal Audit also identified situations that should be addressed in policies and procedures and cited policy violations related to relocation costs. Finally, the audit outlined concerns about the removal of a requirement for bus service workers to hold a commercial driver license. Management agreed to implement three recommendations related to these observations.

The compliance, controls, and reporting audit of investments for the period July 1, 2018 through December 1, 2018, included two recommendations related to errors in reporting, monitoring of the ten percent threshold for asset-backed securities, and secondary review of daily holding reports. Management agreed with the recommendations and indicated corrective actions were taken.

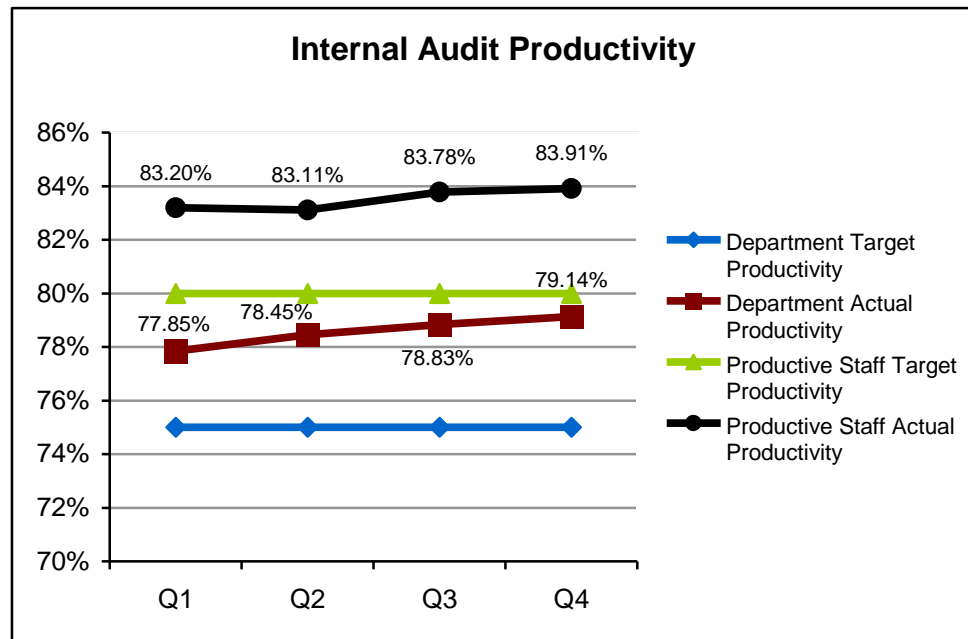
Finally, an audit of the Construction Safety Program (Program) was issued, concluding that the Program could be improved by enhancing policies and procedures, developing a training program, refining the process for identifying applicable contractors, and formalizing the process for documenting safety activities and reporting. Management responded that the Program will be revised to address the reported observations.

Also, during the quarter, Internal Audit provided results of the FY 2015-16 through FY 2017-18 State Triennial Performance Audits (STP Audits) of OCTA and Laguna Beach Municipal Transit Lines (LBMTL). The STP Audits found OCTA and the Orange County Transit District in compliance with all Transportation Development Act regulations and provided seven recommendations for consideration. The auditors also found LBMTL in compliance and offered three recommendations.

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, 2019, Internal Audit had achieved cumulative productivity of 79 percent, and the professional staff achieved cumulative productivity of 84 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management Department (CAMP), and consistent with OCTA's 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 fourth quarter, Internal Audit completed 11 price reviews. For the year ended June 30, 2019, a total of 29 price reviews were issued.

Fraud Hotline

Internal Audit is responsible for administering the OCTA Fraud Hotline. The fraud hotline system allows reporters to file complaints anonymously through the internet or by calling 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 June 30, 2019, Internal Audit received six reports. Four reports were customer complaints and were referred to management for disposition. Two complaints did not involve OCTA; one reporter was given contact information for the applicable agency and information from the second reporter was communicated to the internal audit department of the subject agency.

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.

Management will begin enforcing a one percent threshold for fare revenue variances on July 1, 2019, when the contract amendment is effective. Management has not implemented a procedure to monitor coupons collected by Yellow Cab.

For the quarter ended June 30, 2019, Internal Audit completed follow-up reviews of five outstanding audit recommendations from the ACCESS Service audit. Four of the recommendations were adequately addressed by management and were closed out and one had not yet been implemented. Follow-up of another three recommendations, from the Interstate 5 Improvement Project audit, are in

process. Eleven recommendations were added to the listing based on the audits summarized above in the Discussion section of this report.

Summary

The OCTA Internal Audit FY 2018-19 Plan is being closed-out. Projects that are in process, and one project that has not been initiated, will be carried forward to the OCTA Internal Audit FY 2019-20 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 2018-19 Internal Audit Plan, Fourth Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through
June 30, 2019
- C. Audit Recommendations Closed During Fourth Quarter, Fiscal Year 2018-19

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