



October 23, 2019

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2019-20 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 2019-20 Internal Audit Plan on August 12, 2019. 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 2019-20 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 Department Fiscal Year (FY) 2019-20 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 the agreement with Element Markets Renewable Energy, LLC, for the purchase of renewable natural gas and monetization of credits under the state Low Carbon Fuel Standard Program and the federal Renewable Fuel Standard Program. The audit found that program oversight controls are adequate, credit revenues are properly monitored, reconciled, and recorded, and invoices are properly reviewed and authorized.

Internal Audit also issued results of an audit of coach operator scheduling. The audit concluded that the coach operator scheduling process is adequate to ensure compliance with the Collective Bargaining Agreement between the Orange County Transportation Authority and Teamsters Local 952, and with the California Code of Regulations.

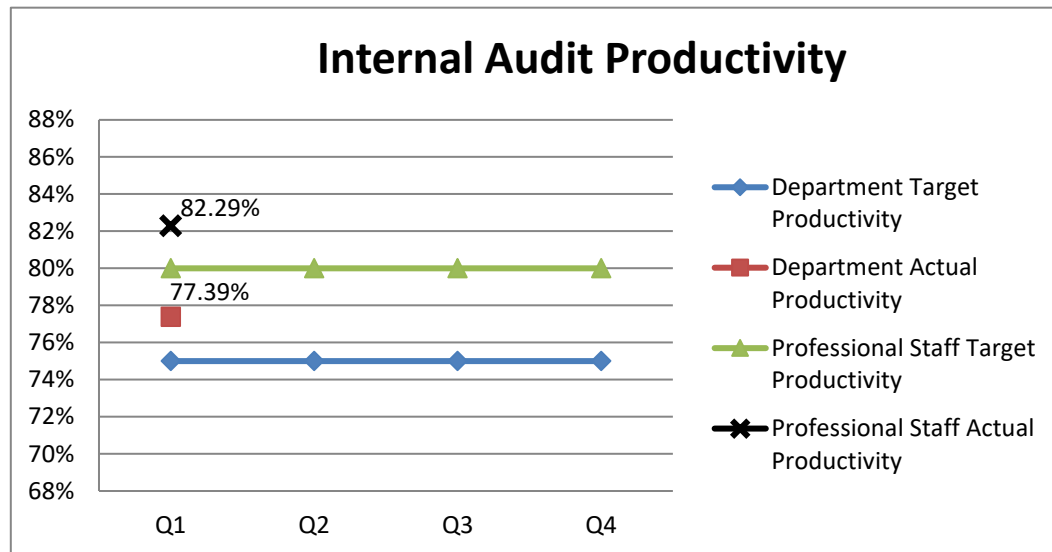
A required audit of the State Transportation Improvement Program Planning, Programming and Monitoring Program for Fiscal Year 2016-17, completed by the professional accounting firm of BCA Watson Rice LLP, found that project funds were used in conformance with Article XIX of the California State Constitution.

In addition to several ongoing audits, the primary focus of Internal Audit as of September 30, 2019, and in the ensuing months, will be to provide coordination of the annual financial audits and agreed upon procedure reviews conducted by Crowe LLP.

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, 2019, Internal Audit achieved productivity of 77 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 four price reviews.

Fraud Hotline

During the quarter ended September 30, 2019, Internal Audit received six reports through OCTA's Fraud Hotline, www.ethicspoint.com. Based on the nature of the complaints, four reports were referred to management for disposition and two were investigated, but not substantiated, by Internal Audit. 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, 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 September 30, 2018, Internal Audit completed follow-up reviews of four outstanding audit recommendations and closed all four (Attachment C). No recommendations were added as a result of audits issued during the first quarter.

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 2019-20 Internal Audit Plan, First Quarter Update
- B. Outstanding Audit Recommendations, First Quarter, Fiscal Year 2019-20
- C. Audit Recommendations Closed During First Quarter, Fiscal Year 2019-20

Prepared by:



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