



January 22, 2020

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, Second 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 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 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 second quarter of the FY, Internal Audit completed an audit of compliance with regulations, policies, and procedures governing compensation, mileage reimbursement, and training for members of the Board of Directors. Based on the audit, controls to ensure compliance with regulations, policies, and procedures were adequate; however, one recommendation was offered to enhance written policies and procedures. Management agreed and indicated that policies would be amended accordingly.

Also, during the quarter, the semi-annual audit of investments for the period January 1 through June 30, 2019, was issued. The audit concluded that OCTA complied with its investment policies; however, an error was identified in the Second Quarter 2019 Investment and Debt Report and the investment compliance schedule did not reflect all investments and bond indenture requirements. Internal Audit recommended review procedures be enhanced, policies be revisited, and the investment compliance schedule be updated to include evaluation of all investments and requirements. Management agreed and indicated that revisions were underway.

An audit of oversight controls and contract compliance related to the Orange Transportation Center Parking Structure Project found that procurements were handled in accordance with policies and procedures, status monitoring and reporting controls were operating, and consultants provided services in accordance with their contracts. Three recommendations were made to improve contract language in a few areas, to ensure consultants utilize adequate labor timekeeping systems, and to develop and implement procedures to ensure compliance with requirements for federally-funded assets. Management agreed and indicated that the recommendations would be implemented.

An audit of corporate credit cards reported that controls to ensure transactions are valid, authorized, and in compliance with policies and procedures, were generally adequate; however, one recommendation was made to clarify requirements for obtaining and documenting approvals. Management agreed to update procedures to provide clarification.

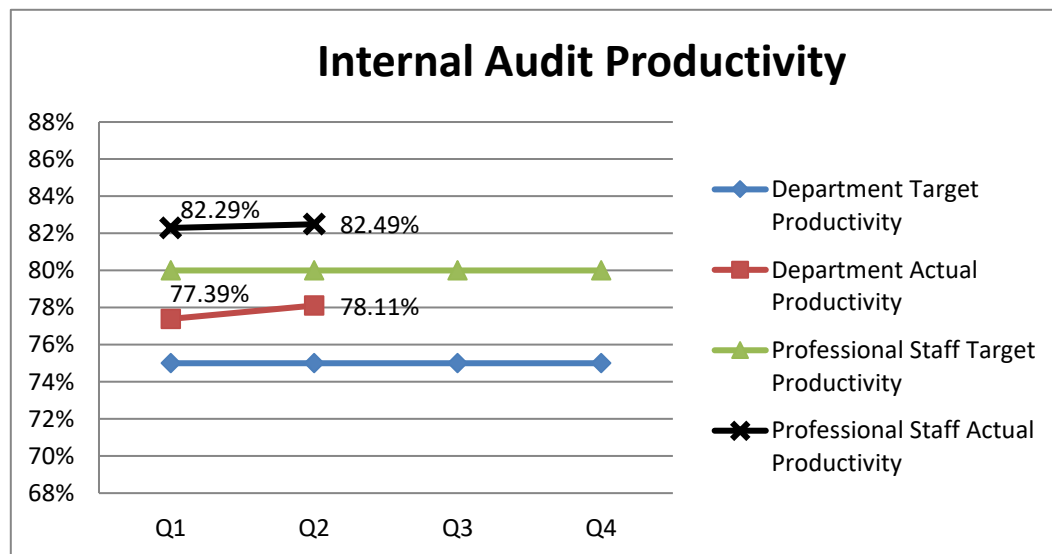
A bus marketing audit concluded that procurement and invoice review procedures should be improved, and documentation of marketing programs should be enhanced. Three recommendations were offered, and management responded that additional controls have been implemented and training will be provided to ensure compliance.

Finally, an audit of the 91 Express Lanes Master Custodial Account activities and revenue allocation was completed and found that revenues were allocated in accordance with the cooperative agreement between OCTA and the Riverside County Transportation Commission. The audit also found controls over wire transfers from the 91 Express Lanes Master Custodial Account were adequate and effective.

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, 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 (CAMP), and consistent with OCTA procurement

policy, Internal Audit applies agreed-upon procedures to single bid procurements to ensure that CAMM handled the procurement in a fair and competitive manner. Internal Audit also applies agreed-upon procedures to 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 six price reviews.

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 December 31, 2019, Internal Audit received seven reports through OCTA's Fraud Hotline, www.ethicspoint.com. Based on the nature of the complaints, six were referred to management, legal counsel, or an appropriate outside agency for disposition. One report did not provide sufficient information for follow-up. 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 December 31, 2019, Internal Audit provided 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 December 31, 2019, Internal Audit completed follow-up reviews of ten outstanding audit recommendations and closed all of them (Attachment C). Follow-up of another three recommendations is in process at quarter end. A total of ten recommendations were added as a result of audits issued during the second 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, Second Quarter Update
- B. Outstanding Audit Recommendations, Second Quarter, Fiscal Year 2019-20
- C. Audit Recommendations Closed During Second Quarter, Fiscal Year 2019-20

Prepared by:



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