



October 14, 2020

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2020-21 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 2020-21 Internal Audit Plan on July 27, 2020. This report provides an update of activities 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 2020-21 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) 2020-21 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project.

During the first quarter of the FY, Internal Audit issued results of an audit of oversight controls and contract compliance related to the Interstate 5 Project: State Route 55 to State Route 57. Internal Audit tested compliance with project management procedures and found evidence of management and oversight controls. In addition, procurements and amendments were handled in accordance with procurement policies and procedures, and contract deliverables were received. Internal Audit made one recommendation to improve review of the construction management consultant invoices. Management agreed with the recommendation and indicated that corrective actions are being implemented.

Internal Audit also issued results of the semi-annual audit of investments for the period January 1 through June 30, 2020. Based on the audit, OCTA complied with its debt, investment, and reporting policies and procedures.

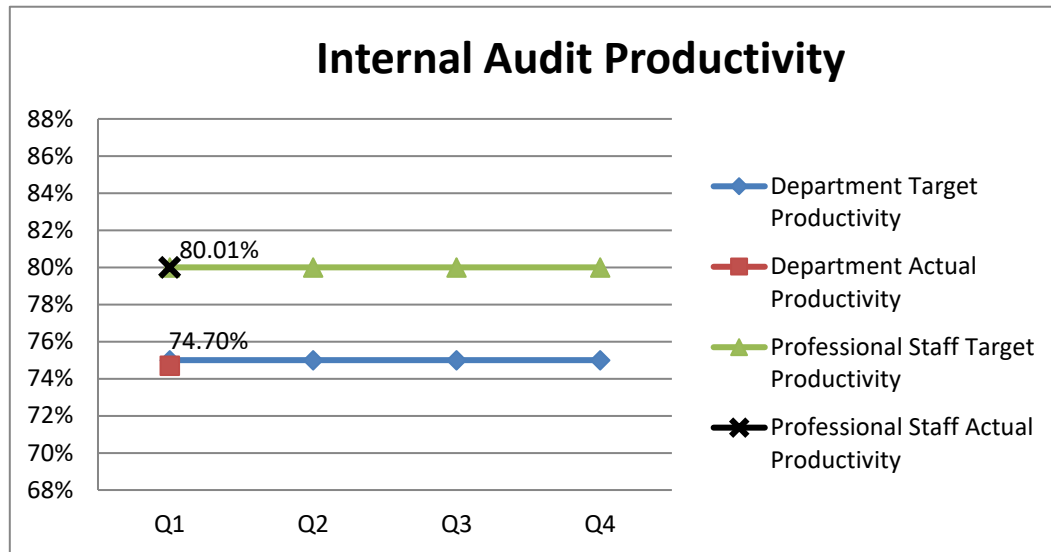
Also, during the quarter, OCTA was notified by the Department of Finance, Office of State Audits and Examinations, of their intention to audit four Proposition 1B-funded projects. Internal Audit is providing assistance and coordination of the audit and will report results once received.

The primary focus of Internal Audit as of September 30, 2020, and in the ensuing months, will be to provide coordination of the annual financial audits and agreed-upon procedure reviews conducted by OCTA's independent auditor, 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, 2020, Internal Audit achieved productivity of 74.6 percent, and the professional staff achieved productivity of 80 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management (CAMM) Department, and consistent with OCTA's 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 ten price reviews.

Fraud Hotline

During the quarter ended September 30, 2020, Internal Audit received two reports through OCTA's Fraud Hotline, www.ethicspoint.com. Based on the nature of the complaints, both were referred to Customer Service. 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, 2020, 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, 2020, Internal Audit completed follow-up reviews of ten outstanding audit recommendations and closed one (Attachment C). In addition, one recommendation was 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 Fiscal Year 2020-21 Internal Audit Plan, First Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through September 30, 2020
- C. Audit Recommendations Closed During First Quarter, Fiscal Year 2020-21

Prepared by:



Janet Sutter
Executive Director, Internal Audit
714-560-5591