



January 13, 2021

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, Second 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 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 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 Fiscal Year (FY) 2020-21 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project.

During the second quarter of the FY, Internal Audit issued results of an audit of employee separations. Based on the audit, internal controls related to employee separations have been established, and controls to ensure accurate final payroll processing are adequate. However, Internal Audit offered three recommendations to improve the employee off-boarding process, to ensure more consistent quarterly stale account reviews, and to improve documentation and communication of employee exit survey results. Management agreed with the recommendations and indicated that corrective actions will be taken.

Internal Audit also issued results of banking services and the agreement with Bank of the West. Based on the audit, controls, policies, and procedures over banking activities are generally adequate and operating, and Bank of the West operates in compliance with the agreement. Internal Audit offered two recommendations to further enhance controls related to bank-authorized signers and bank statement analyses. Management agreed and indicated that procedures would be developed to enhance controls.

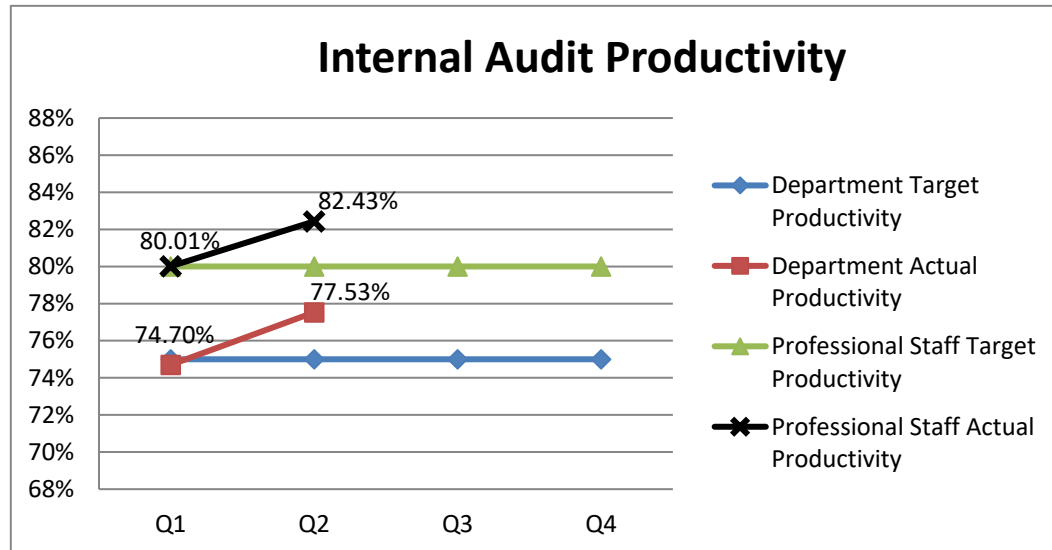
The primary focus of Internal Audit during the quarter was to provide coordination and assistance related to the annual financial audits and agreed-upon procedure reviews conducted by OCTA's independent financial statement auditor, Crowe LLP (Crowe). All audits and agreed-upon procedures reviews, except those related to individual cities and the County of Orange, were issued. In connection with the audits, Crowe made five recommendations to management for improvement to internal controls. Management agreed with the recommendations and outlined actions to address the issues.

The Department of Finance, Office of State Audits and Examinations, continued work on the audit of four Proposition 1B-funded projects. Internal Audit will continue to provide assistance and coordination of the audit, and will report results when received.

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, 2020, Internal Audit achieved productivity of 77.5 percent, and the professional staff achieved productivity of 82 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management (CAMP) Department, 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 lists adjustments to rates where the proposed rates exceed rates calculated during the review. During the second quarter, Internal Audit issued results of six price reviews.

Fraud Hotline

During the quarter ended December 31, 2020, Internal Audit received three reports through OCTA's Fraud Hotline, www.ethicspoint.com. Based on the nature of the complaints, two reports were referred to Customer Service, and one was referred to Human Resources and Organizational Development. 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, 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 December 31, 2020, Internal Audit completed follow-up reviews of four outstanding audit recommendations and concluded that management had taken appropriate corrective actions (Attachment C). The follow-up review of one recommendation is in process as of the end of the quarter. Five recommendations were added as a result of audits issued during the second quarter, and one item was added related to recommendations made by OCTA's independent financial statement auditor in connection with their audit of OCTA's financial statements.

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, Second Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through December 31, 2020
- C. Audit Recommendations Closed During Second Quarter, Fiscal Year 2020-21

Prepared by:



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