



***April 28, 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, Third 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 third quarter of the fiscal year.

### ***Recommendation***

Receive and file the third 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 third quarter of the FY, Internal Audit issued results of an audit of oversight and reporting controls related to the Comprehensive Transportation Funding Program. Based on the audit, oversight and reporting controls are adequate; however, one recommendation was made to ensure that all performance requirements of community-based transit circulator projects are incorporated into local agency agreements and monitored for compliance standards. Management agreed, and presented amended guidelines to the Board of Directors for approval, and indicated that cooperative agreements and monitoring procedures will be updated to ensure consistency and proper oversight.

Internal Audit also issued results of an audit of oversight controls and contract compliance related to the OC Streetcar project management contract. The audit found evidence of compliance, with procedures for project management oversight and reporting. In addition, invoices were generally paid in compliance with contract provisions, policies, and procedures; however, recommendations were made to recover identified double-billings, and to clarify requirements and improve controls over review of rates for consultant staff added to contracts. Management agreed and deducted double-billed costs from a recent invoice. Also, management agreed to amend contract language to be consistent with policy requirements and to implement additional controls.

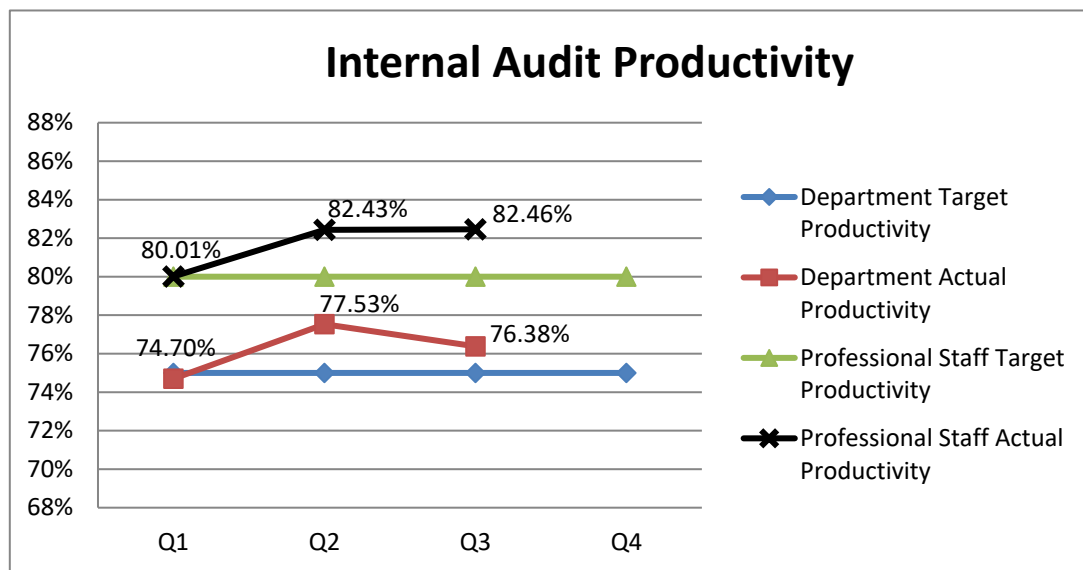
Eide Bailly LLP, an independent accounting firm, issued results of agreed-upon procedures (AUP) applied to Measure M2 (M2) maintenance of effort (MOE) expenditures by the City of Santa Ana under the Local Fair Share (LFS) program for the FY ended June 30, 2020. In addition, Crowe LLP, an independent accounting firm, issued results of AUPs applied to M2 LFS funds provided to seven cities, Senior Mobility Program (SMP) funds provided to six cities, and Senior Non-Emergency Medical Transportation (SNEMT) funds provided to the County of Orange for the FY ended June 30, 2020. LFS program reports included observations of ineligible MOE expenditures, misreporting of direct or indirect costs, misreporting of expenditures, and a funded project not reflected in the city's Seven-Year Capital Improvement Program plan. SMP reports include observations relating to late submission of a monthly report, third-party contracting, misreporting of expenditures, failure to allocate interest, and overcharge of administrative costs. The SNEMT report had no observations. Management responses were obtained in writing from the cities for all observations, and corrective actions will be monitored by OCTA staff.

The Department of Finance, Office of State Audits and Examinations, held an exit conference with OCTA staff in connection with their 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. 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 third quarter ended March 31, 2021, Internal Audit achieved productivity of 76 percent, and the professional staff achieved productivity of 82 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 lists adjustments to rates where the proposed rates exceed rates calculated during the review. During the third quarter, Internal Audit issued results of eight price reviews.

### Fraud Hotline

During the quarter ended March 31, 2021, Internal Audit received three reports through OCTA's Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com). Based on the nature of the complaints, two reports were referred to Bus Operations for follow-up, and one was referred to the 91 Express Lanes 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 March 31, 2021, 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 March 31, 2021, Internal Audit completed follow-up reviews of three outstanding audit recommendations, and concluded that management had taken appropriate corrective actions (Attachment C). Three recommendations were added as a result of audits issued during the quarter, and one item was added related to recommendations made by OCTA's independent financial statement auditor in connection with their audits of jurisdictions receiving M2 funding.

### ***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, Third Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through March 31, 2021
- C. Audit Recommendations Closed During Third Quarter, Fiscal Year 2020-21

**Approved by:**

A handwritten signature in dark ink, appearing to read 'Janet Sutter', is written over the printed name.

Janet Sutter  
Executive Director, Internal Audit  
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