



July 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, Fourth 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 update is for the fourth quarter of the fiscal year.

Recommendation

Receive and file the fourth 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, and agreed-upon procedures reviews. Audits initiated by entities outside of OCTA are coordinated through Internal Audit.

Discussion

The OCTA Internal Audit Fiscal Year (FY) 2020-21 Internal Audit Plan (Plan), Attachment A, reflects the status of each audit project as of year-end. Staff hours, as reflected in Attachment A, represent total hours available annually for audit activities and are budgeted by project as a preliminary estimate of the effort required to meet the audit objective. Actual hours available for audit activities exceeded budgeted hours by approximately 600 hours due primarily to a decrease in the amount of vacation, sick, and training hours taken by staff during the year.

For the Plan year, Internal Audit completed 44 projects, including 32 price reviews, nine internal audits, one unscheduled agreed-upon procedures review, and two Buy America reviews. As reflected in the Plan, time spent on price reviews was under-estimated, resulting in an overage of approximately 500 hours. As of June 30, 2021, two internal audits are in progress, and one audit has been completed with a draft report in circulation. These audit projects will be carried over to the FY 2021-22 Plan.

During the fourth quarter, Internal Audit issued results of an audit of oversight controls and contract compliance related to the Bridgestone American Tire Operations, LLC (Bridgestone), tire lease and services agreement. Based on the review, the procurement of tire lease and services was handled in accordance with OCTA procurement policies and procedures, and payments are properly reviewed and authorized by staff. However, Bridgestone had not provided minimum staffing levels required by the contract, did not provide documents required to be submitted upon contract award, and was unable to provide certain required documents upon request. Additionally, contract requirements for torque re-check of new tires installed on ACCESS buses had not been implemented. OCTA management had also not implemented monitoring controls to ensure contract compliance. Management agreed and took immediate action to address contract compliance issues and indicated that controls will be implemented to monitor compliance going forward.

An audit of investments for the period July 1 through December 31, 2020, found that OCTA complied with its debt, investment, and reporting policies and procedures; however, one recommendation was made that management reconsider a change in reporting practices to add certain assertions. Management agreed and indicated that recommended assertions would be included in the reports starting in April 2021.

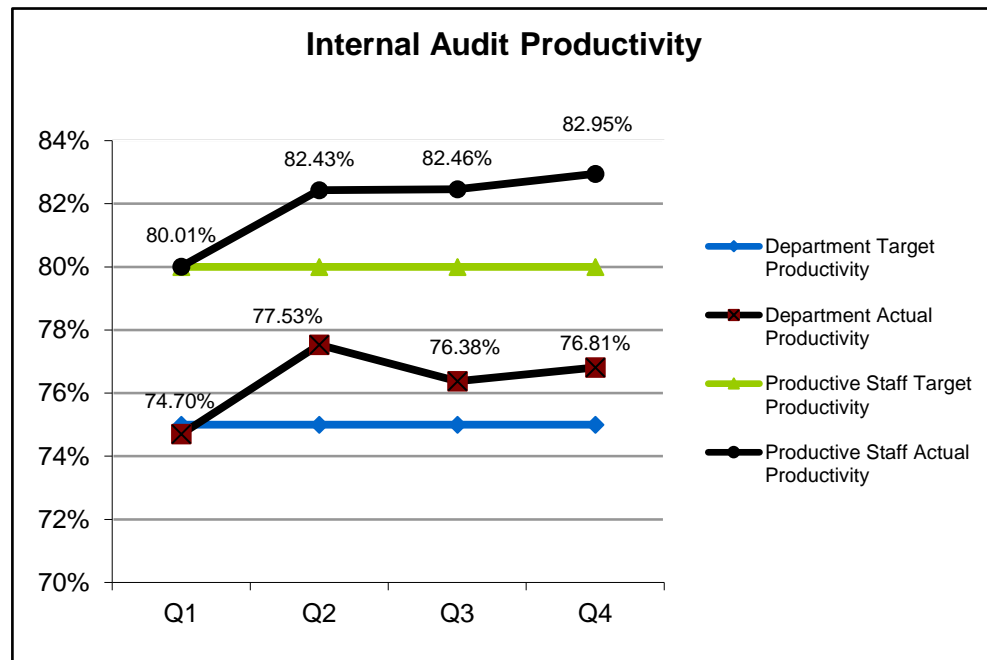
Also, during the quarter, Internal Audit provided results of an audit of the Department of Motor Vehicles (DMV) Employer Pull Notice Program. Based on the audit, controls were in place to ensure compliance with regulatory requirements and policies and procedures; however, recommendations were

made to enhance review controls and documentation, to update policy and job descriptions to reflect current requirements, and to consistently and timely perform monitoring activities. Management agreed and indicated that recommended actions will be implemented.

Internal Audit Department 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.

By the quarter ended June 30, 2021, Internal Audit had achieved cumulative productivity of 77 percent, and the professional staff achieved cumulative productivity of 83 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 fourth quarter, Internal Audit completed nine price reviews. For the year ended June 30, 2021, a total of 32 price reviews were issued.

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 June 30, 2021, Internal Audit received three reports. Two reports were customer complaints and were referred to customer service for disposition, and the third report was referred to Human Resources staff for investigation.

Outstanding Audit Recommendations Tracking

At the request of the Finance and Administration Committee, a listing of outstanding audit recommendations is included with the quarterly updates to the Plan as Attachment B.

For the quarter ended June 30, 2021, Internal Audit completed follow-up reviews of five outstanding audit recommendations. Four of the recommendations were fully implemented by management and were closed out, and one was partially implemented and will be reviewed again in six months.

Eight recommendations were added to the listing based on the audit of the Bridgestone tire lease and services agreement, the semi-annual audit of investments, and the DMV Employer Pull Notice program audit, summarized above.

Summary

The OCTA Internal Audit FY 2020-21 Plan is being closed-out. Two projects that are in process, and one project that being finalized, will be carried forward to the OCTA Internal Audit FY 2021-22 Plan. Internal Audit will continue to perform follow-up of all outstanding findings and recommendations.

Attachments

- A. Orange County Transportation Authority Internal Audit Department Fiscal Year 2020-21 Internal Audit Plan, Fourth Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued through June 30, 2021
- C. Audit Recommendations Closed During Fourth Quarter, Fiscal Year 2020-21

Approved by:



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