



**October 27, 2021**

**To:** Finance and Administration Committee

**From:** Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Fiscal Year 2021-22 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 2021-22 Internal Audit Plan on August 9, 2021. 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 2021-22 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) 2021-22 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 administrative controls related to the OCTA Conflict of Interest Code and the California Form 700 Statement of Economic Interests (Form 700) filing process. Based on the audit, internal controls related to coordination of Form 700 statements by designated employees are in place; however, Internal Audit recommended a process be established for evaluation and identification of contractors as designated filers, and improvements be made in the identification and reporting of designated positions and notification of leaving office filing requirements. As to OCTA contractors, management responded that, in coordination with legal counsel and the Contracts Administration and Materials Management (CAMM) Department, a process will be developed. Management also agreed to take actions and adjust procedures to address identification of designated positions and leaving office filing requirements.

Internal Audit also issued results of the semi-annual audit of investments for the period January 1 through June 30, 2021. Based on the audit, OCTA complied with its debt, investment, and reporting policies and procedures; however, Internal Audit did recommend that staff consistently document resolution of all issues flagged in the Clearwater compliance module and consider customizing the module to better reflect OCTA policy. Management agreed to document all resolutions and update the compliance module to improve monitoring.

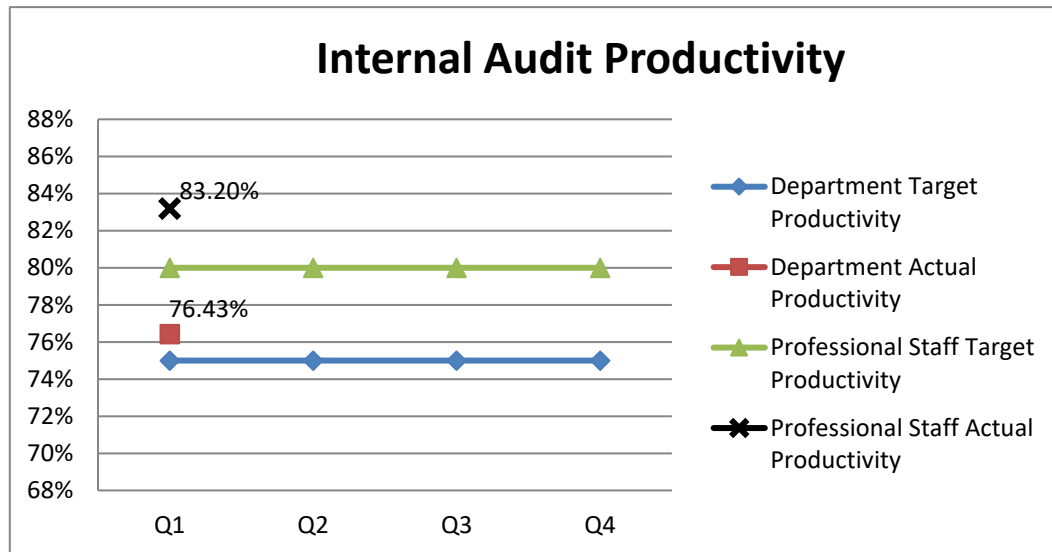
Also, during the quarter, results of an audit by the Department of Finance, Office of State Audits and Examinations, of Proposition 1B funds awarded to OCTA for the Lakeview Avenue Grade Separation, Brookhurst Street Improvements, La Pata Avenue Phase 1, and Laguna Niguel to San Juan Capistrano Passing Siding projects were received and communicated to the Finance and Administration Committee and the Board of Directors. The audit report found that expenditures were generally in compliance with project agreements and program guidelines; however, four observations were made related to unsupported contract change order expenditures, late submission of final delivery reports, reporting of project benefits/outcomes, and oversight of administering agencies' procurement processes. The results of the audit were transmitted to the California Department of Transportation, which will be responsible for developing a corrective action plan for final disposition of these observations and related recommendations. Management will work, as requested, with the California Department of Transportation on appropriate disposition of the observations and recommendations identified through the audit.

The primary focus of Internal Audit as of September 30, 2021, 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, 2021, Internal Audit achieved productivity of 76 percent, and the professional staff achieved productivity of 83 percent.



Price Reviews

At the request of the 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 five price reviews.

### Fraud Hotline

During the quarter ended September 30, 2021, Internal Audit received six reports through OCTA's Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com). Based on the nature of the complaints, five reports were referred to appropriate internal management or external agencies. One report was investigated by Internal Audit; however, the complaint was not substantiated. 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, 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 (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, 2021, Internal Audit completed follow-up reviews of five outstanding audit recommendations and closed four (Attachment C). One recommendation was partially closed, and follow-up will be performed in another six months. In addition, four recommendations were 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 2021-22 Internal Audit Plan, First Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through September 30, 2021
- C. Audit Recommendations Closed During First Quarter, Fiscal Year 2021-22

**Approved by:**



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