



October 25, 2023

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2023-24 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 2023-24 Internal Audit Plan on July 24, 2023. 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 2023-24 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) 2023-24 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project.

During the first quarter of the FY, Internal Audit presented results of an audit by BCA Watson Rice LLP, of OCTA's Cybersecurity Program. The audit found that OCTA's cybersecurity program was performing adequately across most of the National Institute of Standards and Technology Cybersecurity Framework. The auditors identified five areas of improvement to further enhance the cybersecurity program. Management agreed to implement the recommendations.

In addition, an audit of oversight and administration activities related to life insurance benefits, as well as compliance with policies, laws, and employee contracts governing these benefits, was issued. Based on the audit, administrative and oversight controls should be improved, and employee contracts should be updated to reflect all terms of the benefits provided. Further, the life insurance provider declined to provide evidence necessary to verify compliance with California law relating to post-mortem interest due. Internal Audit offered four recommendations. Management responded that legal counsel advice as to benefit terms in employee agreements had been obtained and indicated that actions will be taken to address other recommendations.

An audit of oversight controls and contract compliance related to the Anaheim Canyon Station Improvements Project found that project oversight and monitoring controls are in place and operating effectively; however, Internal Audit offered three recommendations for improvement to controls. Management responded that actions would be taken to address the recommendations.

An audit of the bus advertising revenue program, including oversight, contract compliance, and remittance review controls related to Agreement No. C-5-3076 with Outfront Media Group, LLC (Outfront) concluded that Outfront complies with contract terms; however, one recommendation was made to enhance remittance review controls and enforce reporting requirements. Management agreed to implement the recommendation by December 1, 2023.

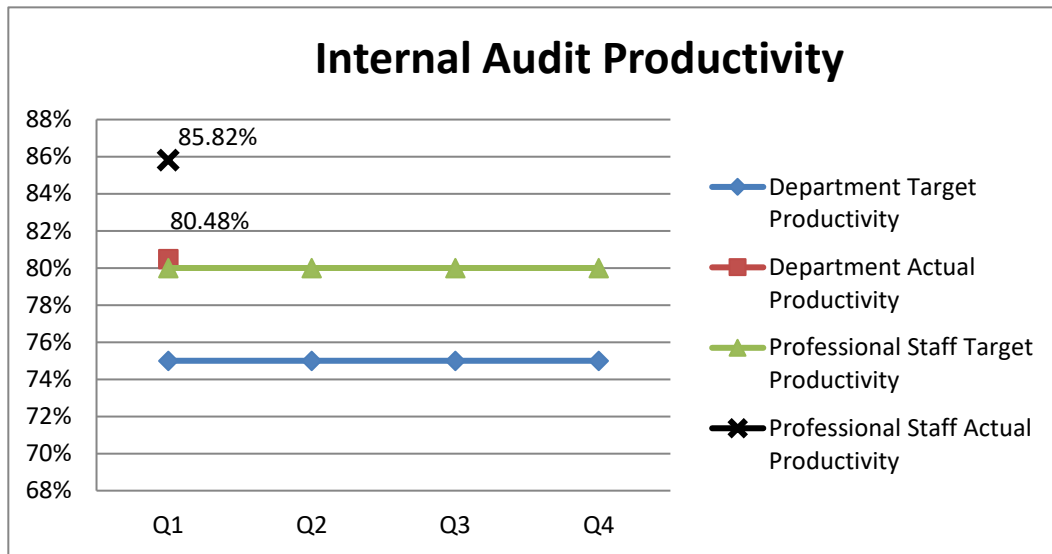
Finally, the semi-annual audit of investments for the period January 1 through June 30, 2023, was completed and found that OCTA generally complied with its debt, investment, and reporting policies and procedures; however, Internal Audit made two recommendations related to the timeliness of daily cash forecasting and monthly report review and presentation to the Finance and Administration Committee. Management agreed to implement the recommendations.

The primary focus of Internal Audit as of September 30, 2023, and in the ensuing months, will be to provide coordination of the annual financial audits and agreed-upon procedures 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, 2023, Internal Audit achieved productivity of 80 percent, and the professional staff achieved productivity of 86 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 five price reviews.

Fraud Hotline

During the quarter ended September 30, 2023, Internal Audit received two reports through OCTA's Fraud Hotline, www.ethicspoint.com. One complaint lacked sufficient information to perform follow-up and the reporter was contacted but never responded. The second complaint was reviewed, and the reporter was referred to the responsible agency. 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, 2023, 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, 2023, Internal Audit completed follow-up reviews of 21 outstanding audit recommendations and closed 15. A follow-up review of one recommendation is still in process. Two recommendations from the audit of Facilities Maintenance, two recommendations from the audit of Physical Access Security, one recommendation from the audit of Training and Educational Reimbursement, and another from the audit of Worker's Compensation have not been fully implemented and will be reviewed again in six months. Fifteen recommendations were added to the listing as a result of audits issued during the first quarter and one recommendation was added resulting from a follow-up review performed during the 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 Internal Audit Department
Fiscal Year 2023-24 Internal Audit Plan, First Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through
September 30, 2023
- C. Audit Recommendations Closed During First Quarter, Fiscal Year 2023-24

Approved by:



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