



**October 23, 2024**

**To:** Finance and Administration Committee

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

Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Fiscal Year 2024-25 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 2024-25 Internal Audit Plan on July 22, 2024. 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 2024-25 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) 2024-25 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 OC ACCESS services provided by First Transit, Inc. Based on the audit, oversight, contract compliance, and invoice review controls are generally adequate; however, four recommendations were made to correct contract and policy language, improve enforcement of contract provisions, enhance review of accident logs, and improve regularity of inspections. Management agreed to implement all of the recommendations.

Also, during the quarter, an audit of revenue agreement identification, tracking, and reporting was finalized and found that controls are adequate and functioning.

An audit of Agreement No. C-4-1816 with Woodruff & Smart (WS), for legal services, concluded that WS complies with the terms of the agreement and invoice review controls are generally adequate but should be enhanced to include verification that pre-approval of legal subcontractors is obtained as required by the contract. Management agreed to revise invoice review procedures to include this verification prior to payment.

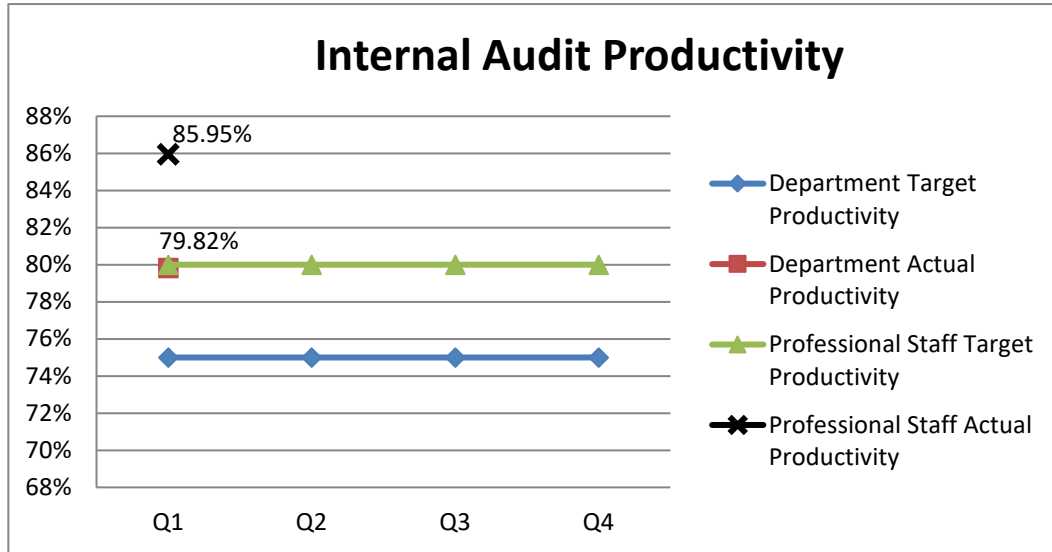
Finally, the semi-annual audit of investments for the period January 1 through June 30, 2024, was completed and found that OCTA complied with its debt, investment, and reporting policies and procedures; however, two recommendations were made to periodically update revenue estimates and to update the Treasury Department manual to reflect current practices. Management agreed and will implement these recommendations.

The primary focus of Internal Audit 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, 2024, 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 applies agreed-upon procedures (AUP) to single-bid procurements to ensure that CAMM handled the procurement in a fair and competitive manner. Internal Audit also applies AUP’s to prices proposed by architectural and engineering firms, as well as sole source contractors, to ensure that the prices are fair and reasonable. During the first quarter, Internal Audit issued results of eight price reviews.

Buy America Reviews

At the request of CAMM, Internal Audit applies pre-award and post-delivery AUPs to revenue vehicle purchases to ensure compliance with Buy America regulations. During the first quarter, Internal Audit issued results of two Buy America reviews.

Fraud Hotline

During the quarter ended September 30, 2024, Internal Audit received three reports through OCTA’s Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com). Two complaints were referred to customer relations for follow-up and were resolved. Another complaint involved criminal allegations unrelated to OCTA and the reporter was

advised to contact the local police department. 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, 2024, 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, 2024, Internal Audit completed follow-up reviews of 23 outstanding recommendations and closed 15. Four recommendations from the audit of cybersecurity, one from the audit of physical access security, two from the audit of transit police services, and one from the audit of agreements with the Regional Center of Orange County and My Day Counts, had not been fully implemented and will be reviewed again in six months. Follow-up reviews of another four recommendations were in progress as of the quarter-end. Seven recommendations were added to the listing as a result of audits issued during the first quarter, as summarized above.

#### **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 2024-25 Internal Audit Plan, First Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through  
September 30, 2024
- C. Audit Recommendations Closed During First Quarter, Fiscal Year 2024-25

**Approved by:**



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