



October 22, 2025

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2025-26 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 14, 2025. 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 2025-26 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) 2025-26 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 budget development, monitoring, and reporting and concluded that controls are adequate and functioning. Internal Audit noted that staff has developed comprehensive and useful training and reference materials and has made these materials available to all employees.

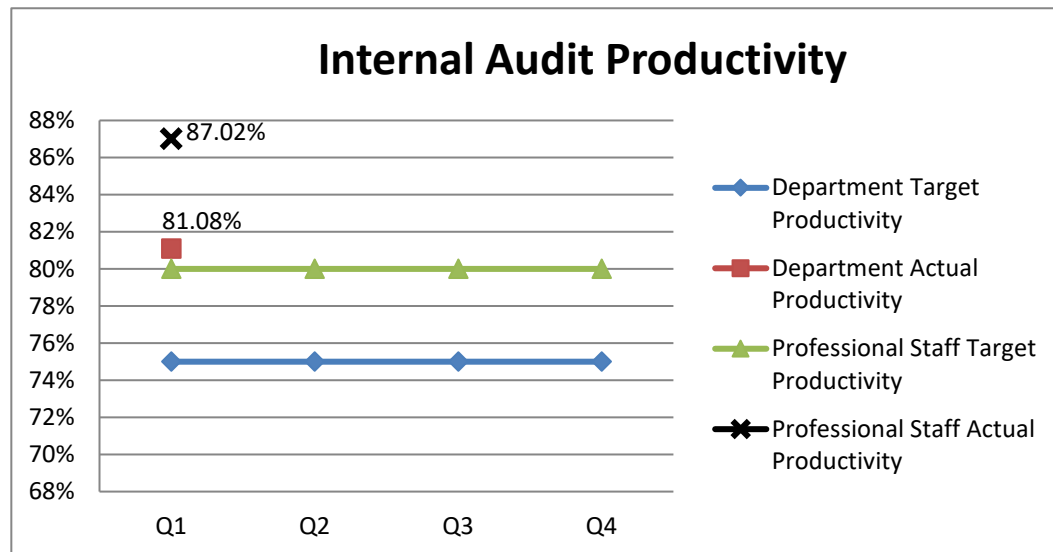
Also during the quarter, an audit of oversight and contract compliance related to public outreach activities for the OC Streetcar Project was finalized. Recommendations were made to improve contract oversight and invoice review controls, and to obtain all required contract deliverables. Management agreed and proposed corrective actions, including training and enhanced procedures.

Finally, an audit of right-of-way maintenance was issued. The audit found that, while controls exist to oversee and monitor maintenance of the operating railroad right-of-way and other properties owned by OCTA, these activities are not currently documented. Internal Audit recommended that oversight and monitoring activities be documented, and contract management, invoice review, and procurement file documentation be improved. Management agreed and indicated that the recommendations will be implemented.

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 81 percent, and the professional staff achieved productivity of 87 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 AUPs to prices proposed by architectural and engineering firms, as well as sole source contractors, to ensure that prices are fair and reasonable. During the first quarter, Internal Audit issued results of seven price reviews.

Fraud Hotline

During the quarter ended September 30, 2025, Internal Audit received four reports through OCTA's fraud hotline, www.ethicspoint.com. Three complaints were referred to customer relations staff and the fourth complaint lacked sufficient information to conduct follow-up. Internal Audit responded to the complainant to request additional information be provided related to the fourth complaint.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended September 30, 2025, 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).

During the quarter ended September 30, 2025, Internal Audit completed follow-up reviews of 13 outstanding recommendations and, as of quarter end, is in the process of following up on another four recommendations. Ten recommendations were adequately addressed by management and were closed out (Attachment C) and two recommendations from the audits of Flexible Spending Accounts and Investment Manager contracts have not yet been addressed and will be reviewed again in six months. One recommendation, from the semi-annual audit of investments, was not implemented by management. The recommendation stemmed from errors noted in the monthly report of investments relating to identification of variable and floating rate securities. Management initially responded that controls would be enhanced to ensure accurate identification of these securities; however, at the time of follow-up, management responded that, rather than implementing additional controls, variable and floating rate securities will no longer be individually identified in reports.

Six 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 2025-26 Internal Audit Plan, First Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through September 30, 2025
- C. Audit Recommendations Closed During First Quarter, Fiscal Year 2025-26

Approved by:



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