



**January 15, 2026**

**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, Second Quarter Update

### **Overview**

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2025-26 Internal Audit Plan on July 14, 2025. This report provides an update on activities for the second quarter of the fiscal year.

### **Recommendation**

Receive and file the second 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 all planned projects and the status of each project.

During the second quarter of the FY, Internal Audit issued results of the semi-annual audit of investments and concluded that OCTA complied with its debt, investment, and reporting policies and procedures; however, the audit identified under-reported money market fund investments in September, October, and November 2024 monthly Investment and Debt Program Reports (monthly reports). Internal Audit recommended management strengthen oversight controls to ensure all investments are reflected in monthly reports. Management agreed and indicated that Treasury staff will implement a systematic process to ensure consistent reporting going forward.

Also, an audit of the warranty section within the Contracts Administration and Materials Management Department (Camm) was issued and concluded that controls over identifying, tracking, and recording of warranty repairs and credits need improvement. Three recommendations were made to improve methods for deriving labor hours consumed, and labor rates used, in valuing and obtaining reimbursement for warranty work performed, to improve follow-up of outstanding warranty claims, and to revise the method for valuing vendor warranty work performed on the bus video communications system and the fare validation system. Management agreed and indicated that recommendations will be implemented.

An audit of same-day taxi service provided by Cabco Yellow, Inc., doing business as California Yellow Cab, found program and contract oversight, as well as invoice review controls adequate and functioning, and concluded that the service provider complies with agreement terms. Internal Audit reported that staff has developed, documented, and implemented procedures for monitoring contract compliance.

An audit of the design and construction management contracts for the State Route 55 Improvement Project between Interstate 405 and Interstate 5 was issued and concluded that oversight and invoice review controls are in place and operating effectively and consultants comply with their respective agreements. One recommendation was made to enhance controls over contract amendment processing. Management agreed and proposed actions to address the recommendation.

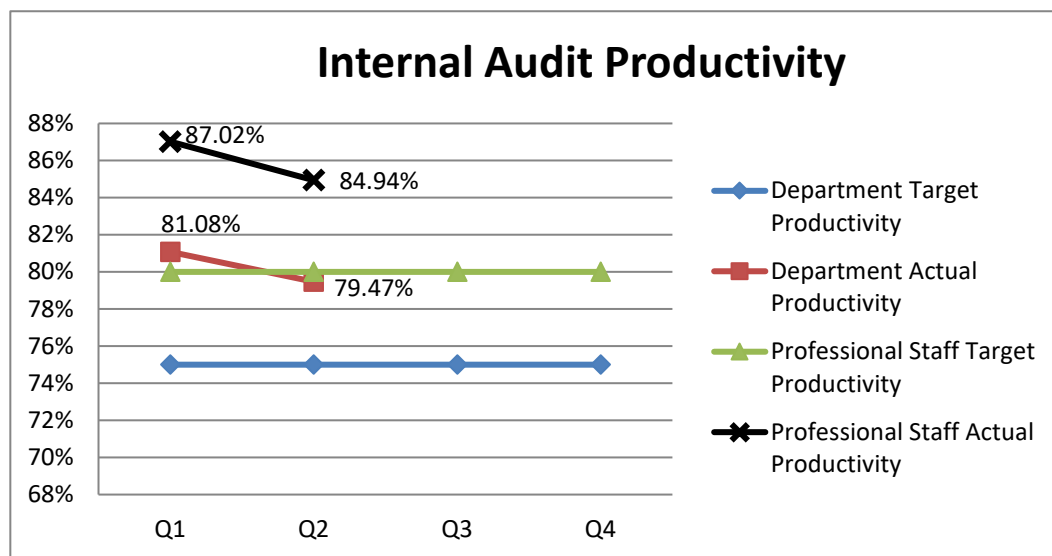
Finally, an audit of the OCTA employee Commuter Club Program was issued and included four recommendations to improve operating, inventory, system, and oversight controls to ensure accuracy and compliance with policy and regulations. Management agreed with the recommendations and proposed actions to address the recommendations.

Another focus during the quarter was to provide coordination and assistance related to the annual financial audits and agreed-upon procedures (AUP) reviews conducted by OCTA's independent auditor, Crowe LLP. All audits and reviews, except for the Measure M2 compliance audit and selected local agency reviews, were issued during the second quarter.

### 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 second quarter ended December 31, 2025, Internal Audit achieved productivity of 79 percent, and the professional staff achieved productivity of 85 percent.



### Price Reviews

At the request of CAMM, and consistent with OCTA's procurement policy, Internal Audit applies AUPs 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 second quarter, Internal Audit issued results of five price reviews.

### Fraud Hotline

During the quarter ended December 31, 2025, Internal Audit received three reports through OCTA's fraud hotline, [www.ethicspoint.com](http://www.ethicspoint.com). All three complaints were referred to customer relations staff for follow-up.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended December 31, 2025, Internal Audit responded to all reports within two business days.

### Findings and Recommendations Tracking

At the request of the Finance and Administration Committee, updates on unresolved audit recommendations are included with the quarterly updates to the Plan (Attachment B).

During the quarter ended December 31, 2025, Internal Audit completed follow-up reviews of 14 outstanding recommendations and is in the process of conducting follow-up of one more. Of the 14 recommendations reviewed, five were adequately addressed by management and were closed (Attachment C). Corrective actions relating to audits of 91 Express Lanes operations, real estate administration, contracted fixed-route services, and the Measure M2 local fair share guidelines, while underway, have not yet been fully addressed and will be reviewed again in six months.

Seven recommendations were added to the listing resulting from audits issued during the second 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, Second Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through December 31, 2025
- C. Audit Recommendations Closed During Second Quarter, Fiscal Year 2025-26

**Approved by:**



---

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