OCTA

*July 16, 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, Fourth 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 update is for the fourth quarter of the fiscal year.

### *Recommendation*

Receive and file the fourth 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 and the Board of Directors (Board) in the discharge of their 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 (Audit Plan) reflects the status of each project as of year-end. Staff hours, as reflected in Attachment A, represent total hours available for audit activities and are budgeted by project as a preliminary estimate of the effort required to meet the audit objectives. Actual hours spent on audit activities exceeded budgeted hours by approximately 200 hours.

For the FY 2025-26 Audit Plan year, Internal Audit completed 41 projects, including 15 audits, 25 price reviews, and one Buy America review. As of June 30, 2026, five audits are in process and will be carried over to the FY 2026-27 Audit Plan.

During the fourth quarter, Internal Audit issued results of an audit of contracts with Mott MacDonald Group, Inc. for program management and planning support services. Based on the audit, procurements were handled in accordance with policies and procedures; however, recommendations were made to recover overbillings and to reconsider cellular phone allowances, a monthly car allowance and certain per diem charges, and to strengthen requirements for consultant timesheets. Management responded and agreed to recover overbillings but indicated the car allowance is justified because the vehicle is used by multiple consultant staff. Management also agreed to provide improved timesheets.

The semi-annual audit of investments: monthly reporting was also completed and included two recommendations to improve references and disclosures within the reports and to perform a secondary review of the reports in a more timely manner. Management agreed and will implement these recommendations.

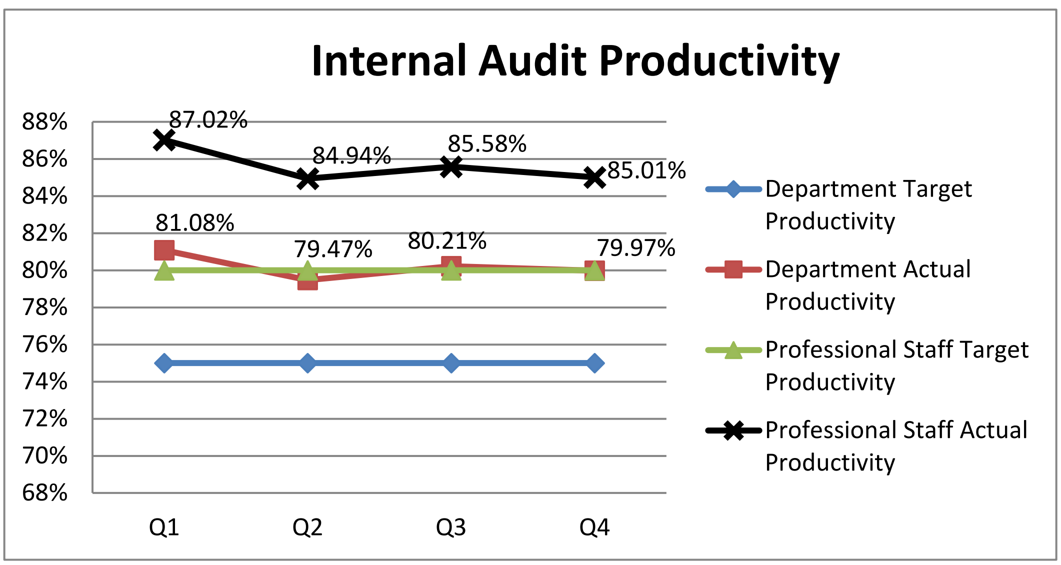
Finally, an audit of the agreement with Kapsch Trafficom USA, Inc. (Kapsch) for the design, implementation, operation and maintenance of the electronic toll and traffic management systems on the 91 and 405 Express Lanes was issued and included five recommendations to ensure contract terms are enforced, liquidated damages and fee adjustments are applied, work is authorized prior to performance, and invoice packages are complete. Management agreed and indicated that decisions about application of liquidated damages should have been better documented and that staff is currently working with Kapsch to determine the correct penalty amounts to be applied. Management also agreed to ensure contract amendments are executed prior to authorizing additional work and to implement an invoice checklist to ensure all invoicing requirements are met.

Also during the quarter, results of the Orange County Local Transportation Authority's (OCLTA) compliance with the Measure M2 (M2) Ordinance for the year ended June 30, 2025, and results of agreed-upon procedures (AUP) applied to determine selected jurisdictions' compliance with the M2 Ordinance for the year ended June 30, 2025, were issued by the independent accounting firm, Crowe LLP. Results were presented to the Finance and Administration Committee, the Board, and the Audit Subcommittee of the Taxpayer Oversight Committee.

Internal Audit Productivity

Internal Audit measures the productivity of the department by calculating a productivity ratio. The ratio 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 Board 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 set at 80 percent.

As of the fourth quarter, Internal Audit had achieved cumulative department productivity of 79.97 percent, and the professional staff achieved cumulative productivity of 85.01 percent.




Price Reviews

At the request of the Contracts Administration and Materials Management (CAMM) Department, Internal Audit applies AUPs to single-bid procurements to ensure that CAMM handled the procurement in a fair and competitive manner. Also, at CAMM's request, Internal Audit applies AUPs to prices proposed by architectural and engineering firms and sole source contractors to ensure prices are fair and reasonable. During the fourth quarter, Internal Audit issued results of four price reviews.

Fraud Hotline

During the quarter ended June 30, 2026, Internal Audit received two reports through OCTA's Fraud Hotline. One report was investigated but not substantiated and a second report involved a complaint that is under review at quarter end. As part of the administration of the hotline, Internal Audit maintains documentation of each complaint and its disposition.

Findings and Recommendations Tracking

At the request of the Finance and Administration Committee, unresolved audit recommendations are included with the quarterly updates to the Audit 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 June 30, 2026, Internal Audit completed follow-up reviews of 13 outstanding recommendations and concluded that all had been adequately addressed (Attachment C). Follow up on another five recommendations is in process as of the quarter end. Seven recommendations were added to the listing resulting from audits issued during the quarter, as summarized above.

***Summary***

The Orange County Transportation Authority Internal Audit Department Fiscal Year 2025-26 Internal Audit Plan is being closed out. Five projects that are in process have been carried forward to the FY 2026-27 Audit Plan.

***Attachments***

A. Orange County Transportation Authority Internal Audit Department Fiscal Year 2025-26 Internal Audit Plan, Fourth Quarter Update
B. Outstanding Audit Recommendations, Audit Reports Issued Through June 30, 2026
C. Audit Recommendations Closed During Fourth Quarter, Fiscal Year 2025-26

**Approved by:**

Janet Sutter
Executive Director, Internal Audit
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