



April 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, Third 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 third quarter of the fiscal year.

Recommendation

Receive and file the third 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 third quarter of the FY, Internal Audit issued results of an audit of Board Member compensation, mileage reimbursements, and training requirements. Based on the audit, controls over processing compensation and mileage reimbursements are adequate and functioning; however, weaknesses were identified in the notification and tracking of mandatory training requirements, and documentation and implementation of practices for determining Board Member eligibility to receive mileage reimbursements. Internal Audit recommended management update policy and procedures to ensure timely notification and follow-up of training requirements, enforce policy requiring compensation be withheld until evidence of training has been obtained, and update mileage reimbursement practices to ensure consistent application. Management agreed and responded that policy and procedures will be updated accordingly.

An audit of program management and planning support services provided by Mott MacDonald Group Limited (Mott MacDonald) was also issued and concluded that procurements were handled in accordance with policy and procedures and Mott MacDonald is providing services in accordance with the contracts; however, three recommendations were made to recover consultant overbillings, enhance review of allowances, and strengthen requirements over consultant timesheets. Management agreed to recover most of the identified overbillings and agreed to implement oversight controls. Management also agreed to require consultants to provide complete timesheets to support labor hours billed.

The audit of five cooperative agreements with special services agencies for provision of OC ACCESS-eligible transportation concluded that contract compliance and invoice review controls are adequate and functioning. Internal Audit noted that management has developed and implemented operating procedures and system checks to confirm participant eligibility and validate monthly trip data provided by the agencies. Management also conducts annual site visits to confirm agencies are in compliance with key contract requirements.

Finally, an audit of the Contractor Safety Management Program noted that the program could be improved by revising policy and safety specifications to better align with expectations, developing methods to ensure applicable project managers are identified and aware of their responsibilities, providing timely training and/or instructions to project managers, and formalizing the process for

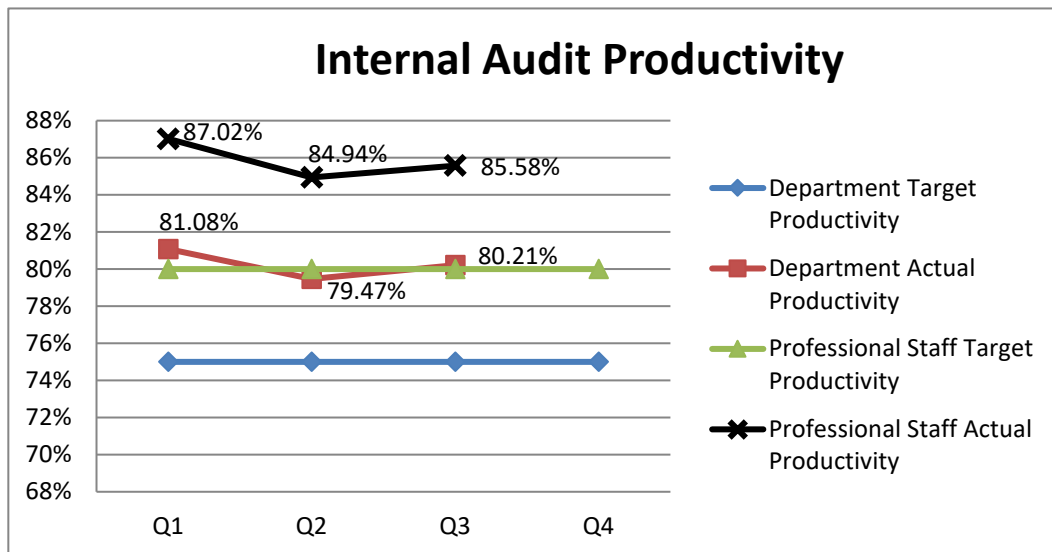
documenting safety activities and reporting within the Origami system. Management agreed and indicated that policy and safety specifications will be revised and the system for identifying and providing applicable project managers with training will be improved. Management also agreed to develop standardized procedures for recording and resolving safety observations.

Another focus during the quarter was to provide coordination and assistance related to the annual Measure M2 compliance audit and agency agreed-upon procedures (AUP) reviews conducted by OCTA's independent auditor, Crowe LLP. These reports are expected to be issued in April 2026.

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.

As of the third quarter ended March 31, 2026, 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 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 third quarter, Internal Audit issued results of six price reviews.

Fraud Hotline

During the quarter ended March 31, 2026, Internal Audit received four reports through OCTA's fraud hotline, www.ethicspoint.com. Two complaints were referred to, and addressed by, management. A third complaint was referred to legal counsel for investigation and is in-process as of quarter end. A fourth complaint was received on March 31, 2026, and was referred to management for follow-up.

Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended March 31, 2026, 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 March 31, 2026, Internal Audit completed follow-up reviews of six outstanding recommendations and is in the process of conducting follow-up of four more. All six recommendations reviewed were adequately addressed by management and were closed (Attachment C).

Seven recommendations were added to the listing resulting from audits issued during the third 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, Third Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through March 31, 2026
- C. Audit Recommendations Closed During Third Quarter, Fiscal Year 2025-26

Approved by:



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