





**April 24, 2024**

**To:** Finance and Administration Committee

**From:** Darrell E. Johnson, Chief Executive Officer   
Janet Sutter, Executive Director   
Internal Audit Department

**Subject:** Fiscal Year 2023-24 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 2023-24 Internal Audit Plan on July 24, 2023. 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 2023-24 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 (Internal Audit) Fiscal Year (FY) 2023-24 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project.

During the third quarter of the FY, Internal Audit presented the results of an audit of Accounts Payable operations. Based on the audit, controls to ensure payments are processed in compliance with policies and procedures are generally adequate; however, two recommendations were made to improve system controls and to ensure consistent enforcement of the Payment Request Policy. Management agreed to implement the recommendations.

In addition, an audit of the OC Vanpool Program found that controls are adequate and operating. OC Vanpool Program staff have developed, documented, and implemented standard operating procedures to ensure program requirements are met and vanpool providers comply with their agreements. No recommendations for improvement were made.

An audit of the College Pass Program was issued and concluded that grant compliance controls are adequate; however, two recommendations were made to improve contract language, establish invoice and collection controls, and develop and enforce controls over paper passes. Management concurred and will amend contracts and implement controls as recommended.

Internal Audit also issued results of the semi-annual audit of investments for the period July 1 through December 31, 2023. Based on the audit, OCTA generally complied with its debt, investment, and reporting policies and procedures; however, two recommendations were made to improve monthly investment and Clearwater system reporting. Management agreed to implement the recommendations.

The primary focus of Internal Audit during the quarter was to provide coordination of the Measure M2 limited compliance audit and agreed-upon procedures reviews conducted by OCTA's independent auditor, Crowe, LLP.

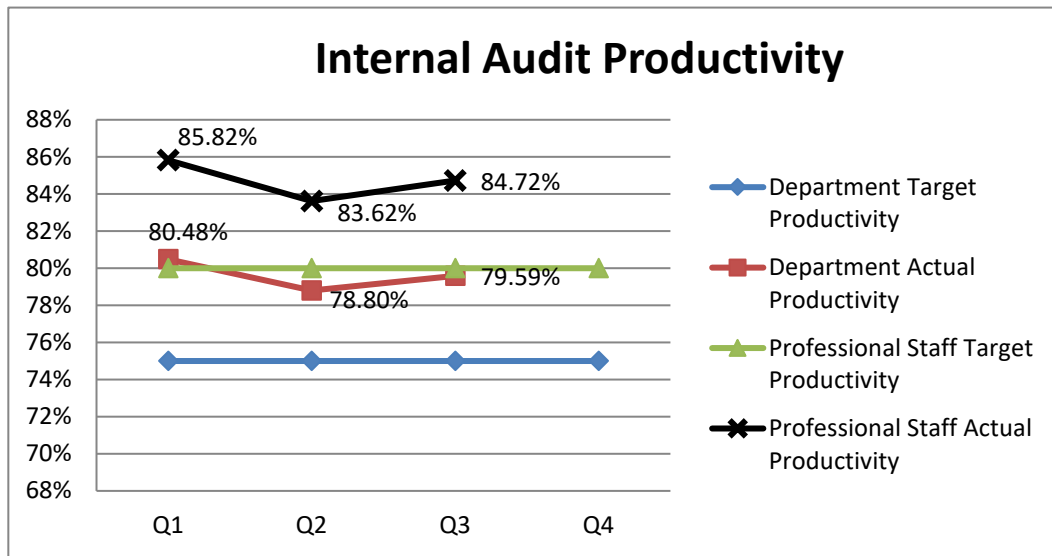
Also, during the quarter, the Federal Transit Administration notified OCTA of its intention to perform an audit of drug and alcohol testing program in place for OCTA employees and its contractors. Staff is in the process of collecting and submitting documentation ahead of the on-site audit that will occur in late April.

#### 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 third quarter ended March 31, 2024, Internal Audit achieved cumulative productivity of 80 percent, and professional staff productivity of 85 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management (CAMM) Department, and consistent with OCTA’s procurement policy, Internal Audit conducts reviews of single bid procurements to ensure that CAMM handled the procurement in a fair and competitive manner. Internal Audit also reviews prices proposed by architectural and engineering firms and sole source contractors to ensure that the prices are fair and reasonable. Internal Audit makes recommendations to adjust proposed rates where they exceed the rates per review. During the third quarter, Internal Audit issued results of three price reviews.

Fraud Hotline

During the quarter ended March 31, 2024, Internal Audit received two reports through OCTA’s Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com). One complaint was referred to customer service for follow-up. The second complaint was investigated and partially substantiated and was referred to Human Resources for additional investigation. 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 March 31, 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).

During the quarter ended March 31, 2024, Internal Audit completed follow-up reviews of 23 outstanding audit recommendations and closed nine. Follow-up reviews of 14 outstanding recommendations related to audits of physical access security, facilities maintenance, Comprehensive Transportation Funding Program projects, cybersecurity, life insurance benefits, and bus advertising had not been fully implemented and will be reviewed again in six months.

Six recommendations were added to the listing resulting from reports 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 2023-24 Internal Audit Plan, Third Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through March 31, 2024
- C. Audit Recommendations Closed During Third Quarter, Fiscal Year 2023-24

**Approved by:**



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