



April 28, 2021

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2020-21 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 2020-21 Internal Audit Plan on July 27, 2020. This report provides an update of 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 2020-21 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 Fiscal Year (FY) 2020-21 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project.

During the third quarter of the FY, Internal Audit issued results of an audit of oversight and reporting controls related to the Comprehensive Transportation Funding Program. Based on the audit, oversight and reporting controls are adequate; however, one recommendation was made to ensure that all performance requirements of community-based transit circulator projects are incorporated into local agency agreements and monitored for compliance standards. Management agreed, and presented amended guidelines to the Board of Directors for approval, and indicated that cooperative agreements and monitoring procedures will be updated to ensure consistency and proper oversight.

Internal Audit also issued results of an audit of oversight controls and contract compliance related to the OC Streetcar project management contract. The audit found evidence of compliance, with procedures for project management oversight and reporting. In addition, invoices were generally paid in compliance with contract provisions, policies, and procedures; however, recommendations were made to recover identified double-billings, and to clarify requirements and improve controls over review of rates for consultant staff added to contracts. Management agreed and deducted double-billed costs from a recent invoice. Also, management agreed to amend contract language to be consistent with policy requirements and to implement additional controls.

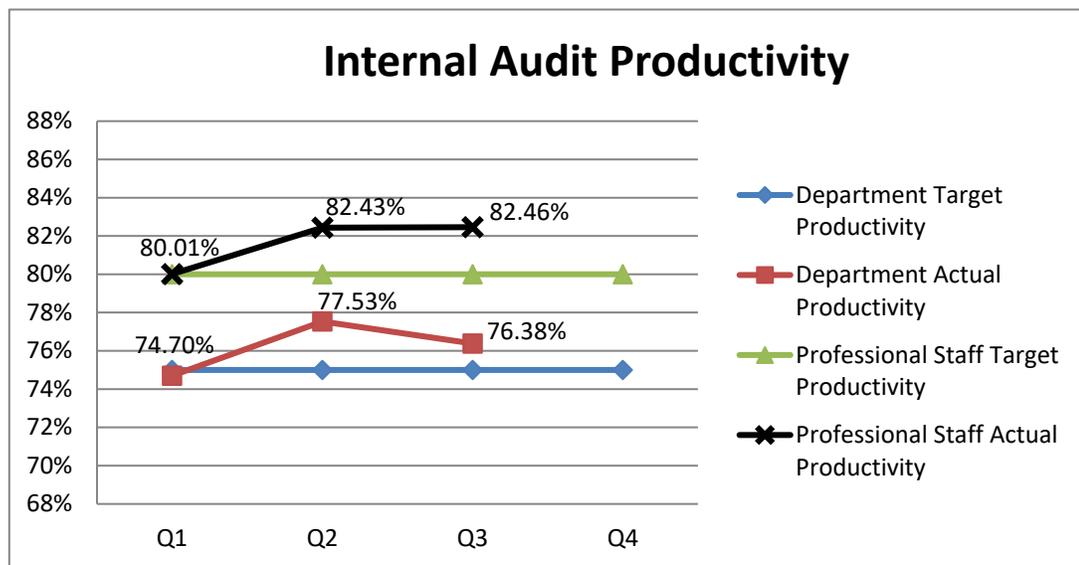
Eide Bailly LLP, an independent accounting firm, issued results of agreed-upon procedures (AUP) applied to Measure M2 (M2) maintenance of effort (MOE) expenditures by the City of Santa Ana under the Local Fair Share (LFS) program for the FY ended June 30, 2020. In addition, Crowe LLP, an independent accounting firm, issued results of AUPs applied to M2 LFS funds provided to seven cities, Senior Mobility Program (SMP) funds provided to six cities, and Senior Non-Emergency Medical Transportation (SNEMT) funds provided to the County of Orange for the FY ended June 30, 2020. LFS program reports included observations of ineligible MOE expenditures, misreporting of direct or indirect costs, misreporting of expenditures, and a funded project not reflected in the city's Seven-Year Capital Improvement Program plan. SMP reports include observations relating to late submission of a monthly report, third-party contracting, misreporting of expenditures, failure to allocate interest, and overcharge of administrative costs. The SNEMT report had no observations. Management responses were obtained in writing from the cities for all observations, and corrective actions will be monitored by OCTA staff.

The Department of Finance, Office of State Audits and Examinations, held an exit conference with OCTA staff in connection with their audit of four Proposition 1B-funded projects. Internal Audit will continue to provide assistance and coordination of the audit, and will report results when received.

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. 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, 2021, Internal Audit achieved productivity of 76 percent, and the professional staff achieved productivity of 82 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 lists adjustments to rates where the proposed rates exceed rates calculated during the review. During the third quarter, Internal Audit issued results of eight price reviews.

Fraud Hotline

During the quarter ended March 31, 2021, Internal Audit received three reports through OCTA's Fraud Hotline, www.ethicspoint.com. Based on the nature of the complaints, two reports were referred to Bus Operations for follow-up, and one was referred to the 91 Express Lanes for follow-up. 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, 2021, 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 as 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 March 31, 2021, Internal Audit completed follow-up reviews of three outstanding audit recommendations, and concluded that management had taken appropriate corrective actions (Attachment C). Three recommendations were added as a result of audits issued during the quarter, and one item was added related to recommendations made by OCTA's independent financial statement auditor in connection with their audits of jurisdictions receiving M2 funding.

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 Fiscal Year 2020-21 Internal Audit Plan, Third Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through March 31, 2021
- C. Audit Recommendations Closed During Third Quarter, Fiscal Year 2020-21

Approved by:



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

**Orange County Transportation Authority
Fiscal Year 2020-21 Internal Audit Plan
Third Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
Mandatory External Independent Audits							
Annual Financial Audits and Agreed-Upon (AUP) Procedures Reviews	FY21-001 through FY21-004	Coordinate and report on annual financial and AUP reviews for fiscal year 2019-20.	Financial	450	322.5	128	Issued
External Regulatory Audits	FY21-005	Coordinate and report on external audits by regulatory or funding agencies.	Compliance	60	62	(2)	In Process
Internal Audit Department Projects							
Risk Assessment and Annual Audit Plan	FY21-100	Preparation of the annual audit plan, quarterly updates to the audit plan, and periodic assessment of risk throughout the year, including monitoring the audit results of related entities.	Audit Plan and Updates	180	64	116	
Quality Assurance and Self-Assessment	FY21-101	Update of Internal Audit Policies & Procedures. Annual self assessment of the Internal Audit Department's (Internal Audit) compliance with Generally Accepted Government Auditing Standards.	Quality Assurance	160	99.5	61	Completed
Fraud Hotline Activities	FY21-102	Administrative duties related to maintenance of the Fraud Hotline and work related to investigations of reports of fraud, waste, or abuse.	Fraud Hotline	240	45	195	8 Reports
Automated Workpaper Solution	FY21-103	System updates/training related to automated workpaper solution.	Workpaper System	40	33	7	
Internal Audits							
Security and Emergency Preparedness							
Physical Access Security	FY21-5XX	Review and test controls in place to ensure physical access security at Orange County Transportation Authority (OCTA) locations.	Internal Control / Operational	240		240	
Clerk of the Board							
Form 700 Disclosures	FY21-5XX	Review and test controls in place related to coordination of Form 700 disclosures by designated employees.	Compliance	240	21.5	219	In Process

**Orange County Transportation Authority
Fiscal Year 2020-21 Internal Audit Plan
Third Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
Human Resources and Organizational Development							
Department of Motor Vehicles (DMV) Pull Notice Program	FY20-5XX	Assess controls and test operation of the DMV Pull Notice Program.	Internal Control/ Operational	240	233.5	7	In Process
Separations	FY21-501	Assess and test controls related to employee separations.	Operational	220	226.5	(7)	Complete 10-12-20
Capital Programs							
Interstate 5 (I-5) Project: State Route 55 (SR-55) to State Route 57 (SR-57)	FY20-510	Review of the I-5 Project: SR-55 to SR-57, including project administration, oversight controls, and contract compliance.	Internal Control / Compliance	60	57	3	Complete 7-29-20
OC Streetcar Project Management	FY21-503	Review of the OC Streetcar project management controls, including project administration, oversight controls, and contract compliance.	Internal Control / Compliance	320	399.5	(80)	Complete 2-11-21
Planning							
Comprehensive Transportation Funding Programs (CTFP): Oversight and Reporting	FY20-512	Review of OCTA monitoring and reporting controls over CTFP projects.	Internal Control	160	290.5	(131)	Complete 1-13-21
Operations							
Facilities Maintenance	FY21-507	Review of facilities maintenance function within Operations Division, including oversight controls and contract compliance.	Operational / Compliance	300	248.5	52	In Process
Bridgestone/Firestone Tire Lease and Services	FY21-506	Evaluate and test oversight controls and contract compliance related to the agreement with Bridgestone/Firestone for lease of tires and related services.	Internal Controls / Compliance	240	357	(117)	In Process
Finance and Accounting							
Treasury	FY21-502	Semi-annual review of investments: compliance, controls, and reporting.	Compliance	200	181.5	19	1 Report Issued
Banking Services - Bank of the West	FY20-507	Assess and test controls to ensure compliance with the agreement between OCTA and Bank of the West for banking services.	Compliance	100	192.5	(93)	Complete 10-21-20

**Orange County Transportation Authority
Fiscal Year 2020-21 Internal Audit Plan
Third Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
Contract Administration and Materials Management (CAMM)							
Price Reviews	PR21-XXX	As requested by the CAMM Department, apply AUP to sole source, single bid, and architectural and engineering firm proposals.	Price Review	800	922	(122)	23 Reports Issued
Buy America	PR21-XXX	As requested by the CAMM Department, apply AUP to determine compliance with Buy America requirements.	Buy America	180	122	58	2 Reports Issued
Unscheduled Reviews and Special Requests							
Unscheduled Reviews and Special Requests	FY21-800	Time allowed for unplanned audits and requests from the Board of Directors (Board) or management.	Varies	240	77.5	163	1 Report Issued
Monitoring Activities							
Measure M Taxpayer Oversight Committee (TOC)	FY21-601	Coordination of audit activities on behalf of the Audit Subcommittee of the TOC.	Administrative Support	60	34	26	
Metrolink Audit Activities	FY21-602	Obtain and review audit results of Metrolink activities	Non-Audit Service	20	48	(28)	
Capital Asset Inventory Observation	FY20-603	At the request of the Finance and Administration Department, observe and apply limited procedures related to the bi-annual capital asset inventory counts.	Non-Audit Service	80	86	(6)	Complete
Bus Base Inspections	FY20-604	At the request of the Transit Division, participation on annual base inspection teams.	Non-Audit Service	40	23	17	Complete
Follow-Up Reviews							
Follow-Up Reviews and Reporting	FY21-700	Follow-up on the status of management's implementation of audit recommendations.	Follow-Up	280	117.5	163	
Total Audit Project Planned Hours (A)				5,150	4,264	886	

**Orange County Transportation Authority
Fiscal Year 2020-21 Internal Audit Plan
Third Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
Internal Audit Administration							
Board and Committee Meetings				180	127	53	
Executive Steering and Agenda Setting Meetings				180	114.5	66	
Internal Audit Staff Meetings				150	85.5	65	
Other Administration				1,250	987	263	
Total Hours (B)				6,910	5,578	1,332	
Department Target Efficiency (A/B)				75%	76%		75%
Target Efficiency - Professional Staff				80%	82%		80%

**Outstanding Audit Recommendations
Audit Reports Issued through March 31, 2021**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response and Status	Internal Audit Status
10/12/20	21-501	Human Resources and Organizational Development (HROD)	Employee Separations	The Internal Audit Department (Internal Audit) recommended that the employee off-boarding process be improved and streamlined, with resumption of suspended efforts to automate the employee exit processing form.	Apr-21	Management responded that they would work with other departments to resume efforts to convert the employee exit processing form into an electronic form.	Initiated
10/12/20	21-501	HROD	Employee Separations	Internal Audit recommended that stale account reviews be performed quarterly to ensure that accounts associated with separated employees have been disabled or deleted.	Apr-21	Management agreed to perform these reviews timely, and also noted that they are working to make the process more efficient.	Initiated
10/12/20	21-501	HROD	Employee Separations	Internal Audit recommended that invitations to participate in employee exit surveys be documented and that a procedure be developed to analyze and communicate exit survey results to management.	Apr-21	Management agreed, noting that written procedures will be developed to cover the employee exit survey process and communication of the results.	Initiated
10/21/20	20-507	Finance and Administration (F&A)	Audit of Banking Services and Agreement with Bank of the West (BofW)	Internal Audit recommended that management develop procedures to document the monthly and annual review processes for the BofW statements and fees.	Apr-21	Management agreed and stated they would develop a procedure to document the monthly and annual review processes, and include evidence of any investigations conducted.	
10/21/20	20-507	F&A	Audit of Banking Services and Agreement with BofW	Internal Audit recommended that management implement a procedure to ensure timely updates to the BofW signature card and explore options to further enhance the control environment related to cash withdrawals by authorized personnel.	Apr-21	Management agreed and indicated they would develop a procedure to ensure timely update of the BofW signature card, and would work with BofW to implement tools to further enhance controls over cash withdrawals, if available.	
2/11/21	21-503	Capital Programs and F&A	OC Streetcar Project Management	Internal Audit recommends that management reconcile the differences between the contract and policy requirements for establishing labor rates of staff being moved from labor classifications to named personnel. Additionally, controls should be developed to ensure compliance with these requirements.	Aug-21	CAMM will amend the language in the appropriate contract templates to ensure consistency with the policy, and make this change to affected agreements as they come up for amendments. Capital Programs will implement additional controls to ensure labor rate escalations for staff being moved from labor classifications to named personnel complies with both contract and policy requirements. Project manager's written approval of labor rates will now include the approved classification billing rate, obtained from the contract classification spreadsheet, as part of the justification memo for individuals added to the contract.	

**Outstanding Audit Recommendations
Audit Reports Issued through March 31, 2021**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response and Status	Internal Audit Status
11/16/2020	Not Applicable	F&A	Fiscal Year 2019-20 Management Letter	In connection with the audit of OCTA's financial statements, Crowe LLP issued a management letter identifying five control deficiencies related to accounting for contingencies, accounting for capital assets, classification of non-recurring revenue, accounts payable accruals, and review of the Service Organization Control report related to worker's compensation.	Nov-21	Management agreed with the recommendations and indicated that corrective actions will be taken.	
1/13/21	20-512	Planning	Comprehensive Transportation Funding Program (CTFP): Oversight and Reporting Controls	Internal Audit recommends management re evaluate Project V requirements and amend guidelines, cooperative agreements, and monitoring controls to ensure consistency and proper oversight.	Jul-21	Management agreed to amend Project V Guidelines to ensure that requirements in the guidelines are aligned with the type of community-based circulator services that have proven to be successful. Further, staff will amend the cooperative agreements to be consistent with the updated requirements. Staff will also include applicable customer satisfaction and on-time performance elements in the required regular reports, in order to oversee this requirement and confirm compliance.	
2/11/21	21-503	Capital Programs	Oversight Controls and Contract Compliance: OC Streetcar Project Management Consultant	Internal Audit recommends management recover identified double-billings of \$5,857.	Aug-21	Management agreed and indicated that \$5,857 would be deducted from the consultant's current invoice.	
2/11/21	21-503	F&A and Capital Programs	Oversight Controls and Contract Compliance: OC Streetcar Project Management Consultant	Internal Audit recommends that management reconcile differences between the contract and procurement policy requirements for establishing labor rates of staff being moved from labor classifications to named personnel. Additionally, controls should be developed to ensure compliance with these requirements.	Aug-21	Management agreed and indicated they will amend language in the appropriate templates, to ensure consistency with policy. Additionally, clarifying changes will be made to the affected agreements as they come up for amendments. In addition, project manager written approval will be required when proposed labor rates of staff being moved to named personnel exceed the contract escalation. Project managers will also implement additional controls to ensure labor rates of staff being moved to name personnel comply with contract and policy requirements.	

**Outstanding Audit Recommendations
Audit Reports Issued through March 31, 2021**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response and Status	Internal Audit Status
3/24/21	Not Applicable	F&A and Operations	Measure M2 Agreed Upon Procedures: Selected Agencies	In connection with the Local Fair Share program, auditors made observations of ineligible maintenance of effort expenditures, misreporting of direct or indirect costs, misreporting of expenditures, and a funded project not reflected in the city's Seven-Year Capital Improvement Program plan. Senior Mobility Program audits include observations relating to late submission of a monthly report, third-party contracting, misreporting of expenditures, failure to allocate interest, and overcharge of administrative costs.	Mar-21	City management responded to the observations and OCTA staff will monitor implementation of corrective actions proposed.	

**Audit Recommendations Closed During
Third Quarter, Fiscal Year 2020-21**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Internal Audit Status Comments
10/31/19	19-508	Capital Programs and Finance and Administration (F&A)	Oversight Controls and Contract Compliance Related to the Orange Transportation Center Parking Structure Project	The Internal Audit Department (Internal Audit) recommends that prime and sub-consultants be required to have an adequate labor timekeeping system. Management should remind consultants of the need to request amendments to add staff, labor rates, and other direct costs in a timely fashion.	Contracts Administration and Materials Management (CAMM) staff have added language to the Request for Proposal template that requires consultants to maintain an appropriate timekeeping system that identifies labor hours expended by project. Also, CAMM reminds consultants of the need to request amendments to add staff, labor rates, and other direct costs in a timely manner, at project kick-off meetings.
2/18/20	20-501	F&A	Patch Management Program (PMP)	The auditors offered one recommendation to expand the PMP to address all other operating systems hardware, software, and peripherals, and to incorporate all devices into the PMP. The auditors also offered four recommendations to further enhance the PMP by formalizing plans to address patch vulnerabilities, removing obsolete operating systems and software from the network, restricting users from installing unauthorized software, and developing test scripts to ensure system functionality after implementation of a patch.	Information Systems (IS) staff have expanded OCTA's PMP to include hardware and software originally not included in the PMP. Processes and plans have been updated to address patch vulnerabilities, remove obsolete systems and software from the network, and restrict users from installing unauthorized software. Finally, IS developed quality assurance documents to test mission critical systems after updates to ensure system functionality.
7/29/20	20-510	Capital Programs	Interstate 5 Project: State Route 55 to State Route 57	Internal Audit recommends that management add a step to review labor rate escalation in its invoice review checklist. Internal Audit also recommends that management require cost documentation for other direct costs (ODC) invoiced and request the consultant to bill all first-tier sub-consultants based on their contract rate schedules.	Management has added a labor escalation rate step to the invoice review checklist and recovered labor over-billings. Management has also stopped billing first-tier sub-consultants as second-tier sub-consultants or ODC. Management is now requiring cost documentation for all ODC other than vehicles.