



**January 26, 2022**

**To:** Finance and Administration Committee

**From:** Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director  
Internal Audit Department

**Subject:** Fiscal Year 2021-22 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 2021-22 Internal Audit Plan on August 9, 2021. This report provides an update of 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 2021-22 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) 2021-22 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project.

During the second quarter of the FY, Internal Audit issued results of an audit of employee incentive benefit programs. Based on the audit, staff generally complied with policies and procedures and related internal controls were in place; however, recommendations were made to enhance controls over the Vanpool and Metrolink incentive programs and to ensure the accessibility of supporting documentation for Wellness incentive payments. Management agreed and indicated that corrective actions will be implemented.

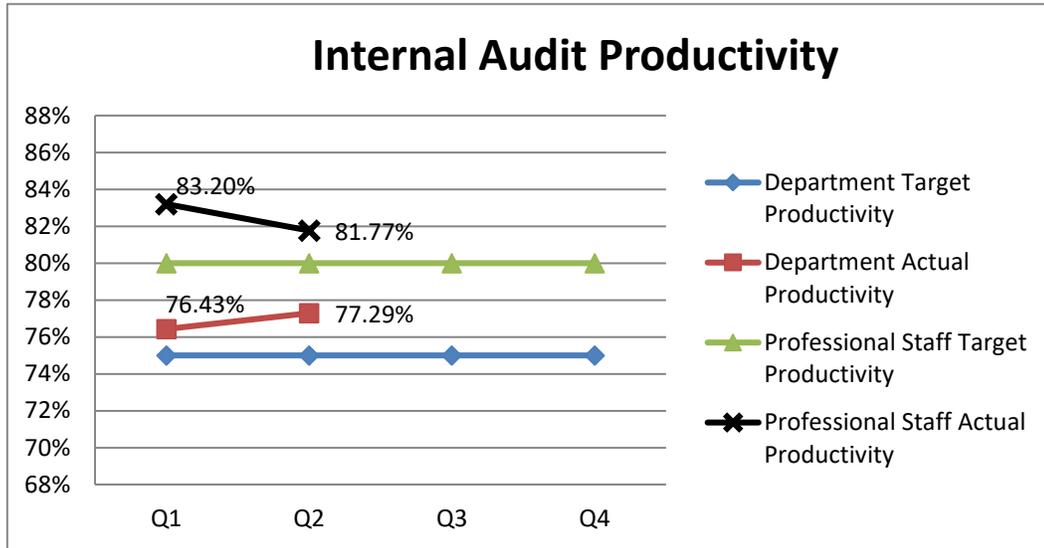
The primary focus of Internal Audit during the quarter was to provide coordination and assistance related to the annual financial audits and agreed-upon procedure reviews conducted by OCTA's independent financial statement auditor, Crowe LLP (Crowe). All audits and agreed-upon procedures reviews, except those related to individual cities, were issued. In connection with the audits, Crowe made four recommendations to management for improvements to internal controls. Management agreed with the recommendations and outlined actions to address the issues.

In addition, on November 8, 2021, the Board of Directors approved a recommendation to exercise the option term with Crowe to continue auditing services for the FYs ending 2022 and 2023.

#### 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 (excluding vacation, sick, holiday, and continuing professional education hours). 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, 2021, Internal Audit achieved productivity of 77 percent, and the professional staff achieved productivity of 82 percent.



Price Review and Buy America Agreed-Upon Procedure Reviews

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

Fraud Hotline

During the quarter ended December 31, 2021, Internal Audit received two reports through OCTA’s Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com). Based on the nature of the complaints, both reports involved complaints by bus passengers and were referred to appropriate internal management for disposition. 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 December 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 the independent financial statement auditors resulting from audits of cities and the County of Orange related to Measure M2 compliance.

During the quarter ended December 31, 2021, Internal Audit completed follow-up reviews of four outstanding audit recommendations made in the audit of oversight controls and contract compliance related to the Bridgestone/Firestone (Bridgestone) Tire Lease and Services contract. Three of the four recommendations have been adequately addressed and no further follow-up is necessary (Attachment C). One recommendation, related to Bridgestone staffing shortages, remains open because of ongoing staffing shortages noted during the follow-up review. This recommendation will remain open and will be reviewed again in six months.

In addition, three recommendations were added to the listing of unresolved findings and recommendations resulting from the audit of employee incentive benefit programs issued during the quarter.

### ***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 2021-22 Internal Audit Plan, Second Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through December 31, 2021
- C. Audit Recommendations Closed During Second Quarter, Fiscal Year 2021-22

**Approved by:**



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

**Orange County Transportation Authority  
Fiscal Year 2021-22 Internal Audit Plan  
Second Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
<b>Mandatory External Independent Audits</b>							
Annual Financial Audits and Agreed-Upon (AUP) Procedures Reviews	FY22-001 through FY22-004	Coordinate and report on annual financial and AUP reviews for FY 2020-21.	Financial	425	229	196	In Process
External Regulatory Audits	FY22-005	Coordinate and report on external audits by regulatory or funding agencies.	Compliance	32	22	11	
State Triennial Review	FY21-007	Procure independent audit firm and coordinate and report on the required State Triennial Performance audits of the Orange County Transportation Authority (OCTA), Orange County Transit District, and Laguna Beach Municipal Transit Lines.	Compliance	180	129	51	In Process
<b>Internal Audit Department Projects</b>							
Risk Assessment and Annual Audit Plan	FY22-100	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	49	131	
Quality Assurance and Self-Assessment	FY22-101	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	120	16	104	
Fraud Hotline Activities	FY22-102	Administrative duties related to maintenance of the Fraud Hotline and work related to investigations of reports of fraud, waste, or abuse.	Fraud Hotline	160	37	124	8 Reports
Peer Review	FY22-104	Participate in peer reviews of other internal audit agencies in exchange for reciprocal credit towards required peer review of OCTA's Internal Audit. Report results of peer review to the Finance and Administration Committee and the Board of Directors (Board).	Peer Review	120	5	115	
Automated Workpaper Solution	FY22-103	System updates/training related to automated workpaper solution.	Workpaper System	40	27	14	

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<b>Internal Audits</b>							
<b>Security and Emergency Preparedness</b>							
Physical Access Security	FY21-511	Review and test controls in place to ensure adequate physical access security at OCTA locations.	Internal Control / Operational	140	384.5	(245)	In Process
<b>Clerk of the Board</b>							
Form 700 Disclosures	FY21-510	Review and test controls in place related to coordination of Form 700 disclosures by designated employees.	Compliance	24	12	12	Complete 7-15-21
Public Records Requests	FY22-5XX	Assess and test controls in place to ensure compliance with regulations, policies, and procedures.	Compliance	160		160	
<b>Express Lanes Program and Motorist Services</b>							
Freeway Service Patrol	FY22-509	Review and test oversight, compliance, and invoice review controls over freeway service patrol activities and consultants.	Operational/ Compliance	240		240	
<b>Human Resources and Organizational Development</b>							
Benefit Programs: Incentives	FY22-502	Assess and test policies, procedures, and controls over employee incentive programs.	Operational	240	278	(38)	Complete 12-23-21
Temporary Staffing	FY22-506	Assess and test oversight, contract compliance, and invoice review controls related to temporary staffing contracts and services.	Operational/ Compliance	240	93.5	147	In Process
<b>Capital Programs</b>							
OC Streetcar - Construction	FY22-505	Review of oversight controls, contract compliance, and invoice review controls related to design and construction of the OC Streetcar project.	Internal Control / Compliance	320	114	206	In Process
On Call Right-of-Way (ROW) and Appraisal Services	FY22-5XX	Assess and test oversight, contract compliance, and invoice review controls over the use of consultant services for ROW and appraisal services.	Internal Control / Compliance	240		240	

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<b>Operations</b>							
Facilities Maintenance	FY21-507	Review of facilities maintenance function within the Operations Division, including oversight controls and contract compliance.	Operational / Compliance	180	394	(214)	In Process
Revenue Vehicle Purchases	FY22-508	Review revenue vehicle purchase activities to determine compliance with regulations, policies, and procedures.	Internal Control/ Operational	240	2	238	
Non-Revenue Vehicle Purchases and Assignment	FY22-5XX	Review non-revenue vehicle and accessory purchases and assignments to determine compliance with policies and procedures, and evaluate activities to assess economy and efficiency.	Internal Control/ Operational	240		240	
<b>Finance and Accounting</b>							
Treasury	FY22-501	Semi-annual review of investments: compliance, controls, and reporting.	Compliance	300	133	167	1 Report Issued
<b>Information Systems</b>							
Cybersecurity	FY22-5XX	Design a scope of work and procure an audit consultant to evaluate OCTA's Cybersecurity program.	Internal Control/ Operational	100		100	
<b>Contract Administration and Materials Management (CAMM)</b>							
Independent Cost Estimates	FY22-5XX	Review and test controls to ensure independent cost estimates are properly prepared and in compliance with regulations, policy, and procedures.	Internal Control/ Compliance	160		160	
Price Reviews	PR22-XXX	As requested by the CAMM Department, apply AUP to sole source, single bid, and architectural and engineering firm proposals.	Price Review	900	375	525	9 Reports Issued
Buy America	FY22-XXX	As requested by the CAMM Department, apply AUP to determine compliance with Buy America requirements.	Buy America	160	73	87	

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<b>External Affairs</b>							
Public Outreach	FY22-504	Assess and test oversight, contract compliance, and invoice review controls related to public outreach activities for the Interstate 405 Project.	Internal Control/ Compliance	240	216	24	In Process
<b>Unscheduled Reviews and Special Requests</b>							
Unscheduled Reviews and Special Requests	FY21-802, FY22-800	Time allowed for unplanned audits and requests from the Board or management.	Varies	240	180	60	1 Report Issued
<b>Monitoring Activities</b>							
Measure M Taxpayer Oversight Committee (TOC)	FY22-601	Coordination of audit activities on behalf of the Audit Subcommittee of the TOC.	Administrative Support	60	10	50	
Metrolink Audit Activities	FY22-602	Review/monitor audit results of Metrolink activities.	Non-Audit Service	20		20	
Capital Asset Inventory Observation	FY22-604	At the request of the Finance and Administration Division, observe and apply limited procedures related to the bi-annual capital asset inventory counts.	Non-Audit Service	80		80	
Bus Base Inspections	FY22-603	At the request of the Operations Division, participate in annual base inspections.	Non-Audit Service	60	24	36	Complete
<b>Follow-Up Reviews</b>							
Follow-Up Reviews and Reporting	FY22-700	Follow-up on the status of management's implementation of audit recommendations.	Follow-Up	240	85	156	
<b>Total Audit Project Planned Hours (A)</b>				<b>6,081</b>	<b>2,886</b>	<b>3,195</b>	

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<b>Internal Audit Administration</b>							
Board and Committee Meetings				180	74	106	
Executive Steering and Agenda Setting Meetings				180	64	116	
Internal Audit Staff Meetings				140	48	93	
Other Administration				1,375	663	713	
			<b>Total Hours (B)</b>	<b>7,956</b>	<b>3,734</b>	<b>4,222</b>	
			<b>Department Target Efficiency (A/B)</b>	75%	77%		
			<b>Target Efficiency - Professional Staff</b>	80%	82%		

**Outstanding Audit Recommendations  
Audit Reports Issued Through  
December 31, 2021**

<b>Audit Issue Date</b>	<b>Report Number</b>	<b>Division/ Department/ Agency</b>	<b>Audit Name</b>	<b>Recommendation</b>	<b>Initiate Next Update</b>	<b>Management Response</b>	<b>Internal Audit Status</b>
1/13/21	20-512	Planning	Comprehensive Transportation Funding Program (CTFP): Oversight and Reporting Controls	The Internal Audit Department (Internal Audit) recommends management re-evaluate Project V requirements and amend guidelines, cooperative agreements, and monitor controls to ensure consistency and proper oversight.	Jan-22	Management agreed to amend Project V Guidelines to ensure that requirements in the guidelines are aligned with the type of community-based transit 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.	Update July 2021: The recommendation is partially closed based on the Board of Directors' approved revisions to the CTFP Guideline requirements. Amendments to cooperative agreements with local agencies will be executed by the end of the first quarter of fiscal year 2021-22, and customer satisfaction and on-time performance reporting requirements will be initiated. As such, this recommendation will remain open until Internal Audit can review the status of reporting related to the new guidelines in January 2022.
4/27/21	21-506	Operations	Review of Oversight Controls and Contract Compliance: Bridgestone-Firestone (Bridgestone) Tire Lease and Services, Agreement No. C-9-1354	Internal Audit recommended management strengthen monitoring controls to ensure required staffing and work schedules are provided as required. Management should also consider actions to address violations of contract terms and consider adjustments to invoices to account for staffing shortages. Finally, management should evaluate whether 17-hour shifts worked by contractor staff present safety concerns that should be addressed.	Apr-22	Management agreed and advised that the Contracts Administration and Material Management (Camm) Department was engaged to formally address the noted contract violations and to explore adjustments to invoices to account for staffing shortages. Management will continue to closely monitor the contract to ensure proper staffing levels are maintained, work schedules are posted and adhered to, and all employee procedures are followed as specified in the terms of the contract. Management will work with OCTA's Health, Safety, and Environmental Compliance (HSEC) Department to ensure safe work practices are being followed by Bridgestone.	Update December 2021: Management obtained credit from Bridgestone for the missed work shifts noted during the original audit; however, Internal Audit questioned the hourly rate used in the calculation for credit. In addition, Internal Audit found that staffing shortage issues have persisted since the audit and, while management has been in communication with Bridgestone regarding these shortages, no formal action has been taken for the failure to meet contract requirements and no actions have been initiated to obtain credits for the missed work shifts.
5/19/21	21-508	People and Community Engagement (PACE) and Operations	Department of Motor Vehicles (DMV) Employer Pull Notice Program	Internal Audit recommended management improve review controls and documentation of follow-up activities.	Nov-21	Management agreed and indicated that recommended actions will be implemented.	Follow-up review in process.

**Outstanding Audit Recommendations  
Audit Reports Issued Through  
December 31, 2021**

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5/19/21	21-508	PACE	DMV Employer Pull Notice Program	Internal Audit recommended that the policy be updated to properly define regulated employees, and that controls be enhanced to ensure timely update of the No Drive listing as supported by signed forms.	Nov-21	Management agreed and indicated that recommendations will be implemented.	Follow-up review in process.
5/19/21	21-508	PACE and Operations	DMV Employer Pull Notice Program	Internal Audit recommended strengthening of Department of Motor Vehicles System (DMVS) controls and consistent performance of mock inspections, which serve as a monitoring control.	Nov-21	Management responded that the DMVS issues will be addressed, and mock inspections will be resumed on an annual basis.	Follow-up review in process.
7/15/21	21-510	Executive Office	Administrative Controls Related to Conflict of Interest Code Form 700 Statement of Economic Interests	Internal Audit recommends management establish and implement a procedure to identify contractors serving in roles where that would otherwise be performed by a designated OCTA employee and require filing. Management should also identify Transit Police Services (TPS) and Real Property consultant staff that should be filing and include them in the eDisclosure system so that they may file, as required.	Jan-22	Management will work with legal counsel and CAMM to develop a process to identify consultants required to file. Both TPS and Real Property consultant staff will be included in this process.	
7/15/21	21-510	Executive Office	Administrative Controls Related to Conflict of Interest Code (COI) Form 700 Statement of Economic Interests	Internal Audit recommends management reconcile the designated positions list with COI code filing requirements in the Human Resources (HR) system. Management should also consider adding the Financial Analyst in Treasury and Public Finance as a designated position.	Jan-22	Management will review the active designated position titles in the HR system and deactivate position codes, where applicable, or add the COI codes as appropriate. In addition, HR will create new position codes for the Financial Analyst job series in Treasury and Public Finance and attach the COI code for the entire job family.	

**Outstanding Audit Recommendations  
Audit Reports Issued Through  
December 31, 2021**

<b>Audit Issue Date</b>	<b>Report Number</b>	<b>Division/ Department/ Agency</b>	<b>Audit Name</b>	<b>Recommendation</b>	<b>Initiate Next Update</b>	<b>Management Response</b>	<b>Internal Audit Status</b>
7/15/21	21-510	Executive Office	Administrative Controls Related to COI Form 700 Statement of Economic Interests	Internal Audit recommends that the Clerk of the Board Department implement procedures to send leaving office notifications to employees that terminate involuntarily or without notice and enhance controls over leaving office notifications for voluntarily separating employees.	Jan-22	Management will review and amend procedures to send out and track leaving office notifications.	
9/28/21	22-501	Finance and Administration Department	Investments: Compliance, Controls, and Reporting January 1 through June 30, 2021	Internal Audit recommends that Treasury staff consistently document resolution of issues flagged in the Clearwater compliance module, as required by the manual. Treasury should also consider customizing the Clearwater compliance module to accurately monitor against OCTA Investment Policy (Policy).	Mar-22	Management agrees and will document resolution of all issues flagged. Treasury will utilize the Daily Holdings reports in conjunction with the compliance module to ensure compliance with OCTA Policy and, going forward, the compliance module will present all investments at cost rather than at market value.	
12/23/21	22-502	PACE	Employee Incentive Benefit Programs	Internal Audit recommends that HR follow up to ensure all discrepancies in vanpool days reported between payment request forms, the OC Vanpool system, and the Commuter Club system are resolved prior to approving payment of incentives.	Jun-22	HR will follow up on any discrepancies of the vanpool days between payment request forms, the OC Vanpool system, and the Commuter Club system and ensure the discrepancies are resolved before the coordinator approves payment requests.	

**Outstanding Audit Recommendations  
Audit Reports Issued Through  
December 31, 2021**

<b>Audit Issue Date</b>	<b>Report Number</b>	<b>Division/ Department/ Agency</b>	<b>Audit Name</b>	<b>Recommendation</b>	<b>Initiate Next Update</b>	<b>Management Response</b>	<b>Internal Audit Status</b>
12/23/21	22-502	PACE	Employee Incentive Benefit Programs	Internal Audit recommends HR consider obtaining and retaining supporting documentation when changing providers charged with collecting information in support of incentive payments. In addition, CAMM should ensure that a complete audit clause is reflected in all purchase orders (PO).	Jun-22	The new Wellness provider has the functionality to retain and report on information in support of incentive payments in the event that OCTA changes providers. Once CAMM was made aware that a system glitch existed that partially cut off the audit clause from some or all POs, CAMM staff worked directly with OCTA's Information Systems Department to identify the root cause and correct the issue. Additionally, now CAMM reviews the General Provisions on each PO to verify that all clauses have printed in their entirety and are included.	
12/23/21	22-502	PACE	Employee Incentive Benefit Programs	Internal Audit recommends HR obtain signed Metrolink Corporate Quick Card Incentive Program Request forms from all participating employees without a form on file. Additionally, HR should consider requesting periodic recertifications by participating employees to ensure that they understand and acknowledge program requirements.	Jun-22	HR will obtain signed Metrolink Corporate Quick Card forms from all active Metrolink commuters who do not have one on file. HR will also request recertification of participating employees on an annual basis.	

**Audit Recommendations Closed During  
Second Quarter, Fiscal Year 2021-22**

<b>Audit Issue Date</b>	<b>Report Number</b>	<b>Division/ Department/ Agency</b>	<b>Audit Name</b>	<b>Recommendation</b>	<b>Internal Audit Status Comments</b>
4/27/21	21-506	Operations	Review of Oversight Controls and Contract Compliance: Bridgestone-Firestone (Bridgestone) Tire Lease and Services, Agreement No. C-9-1354	Internal Audit recommended management review and enforce all contract terms. In addition, management should monitor to ensure tire inventories are maintained so that timely service can be provided at each of the bus bases. Finally, management should seek reimbursement from Bridgestone for the damaged equipment.	Management has obtained and reviewed required safety submittals and evidence of employee training. Management has also implemented monitoring controls to ensure tire inventories are maintained at all bus base locations. Finally, management obtained credit from Bridgestone for the damaged equipment.
4/27/21	21-506	Operations	Review of Oversight Controls and Contract Compliance: Bridgestone Tire Lease and Services, Agreement No. C-9-1354	Internal Audit recommended management collaborate with Bridgestone and MV Transit to develop a process to ensure that wheel torque is re-checked as specified in the contract.	Bridgestone completed a re-torque of every paratransit vehicle at the Irvine Construction Circle Base and now has a system to ensure re-torque is performed per manufacturer specifications. Management now requires Bridgestone to submit proof of this on a monthly basis.
4/27/21	21-506	Operations	Review of Oversight Controls and Contract Compliance: Bridgestone Tire Lease and Services, Agreement No. C-9-1354	Internal Audit recommended management implement monitoring controls to ensure Bridgestone complies with contract requirements for employee qualifications and regulations pertaining to a drug and alcohol-free workplace.	Management developed an onboarding checklist for Bridgestone new hires to ensure background checks and other requirements are met. Bridgestone submits a copy of the checklist to management for all new hires. Management has also implemented monitoring controls to ensure compliance with regulations related to drug and alcohol-free workplace.