



February 27, 2013

To: Finance and Administration Committee
From: Will Kempton, Chief Executive Officer
Subject: Orange County Transportation Authority Internal Audit Department Peer Review

Overview

An external quality assurance, or peer, review has been completed of the Internal Audit Department of the Orange County Transportation Authority. The peer review found that the Internal Audit Department's quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for the period January 1, 2010 through December 31, 2012. The peer review team also provided a management letter with two recommendations to further strengthen the internal quality control system.

Recommendation

Direct the Internal Audit Department to implement recommendations provided by the Association of Local Government Auditors in a letter dated February 8, 2013.

Background

Government Auditing Standards (Standards), issued by the United States Government Accountability Office set professional standards for the performance of government audits. One of the Standards is that audit departments undergo an external quality assurance, or peer, review once every three years. Internal audit departments may either engage an independent audit firm to have the peer review performed, or participate in a peer review program of a recognized professional association.

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) sought the assistance of the Association of Local Government Auditors (ALGA) to perform the peer review. ALGA's peer review program is well developed and is rotational in nature. By volunteering

80 hours of service on peer review teams during 2012, Internal Audit received this reciprocal peer review at minimal cost to OCTA.

The peer review was performed during the week of February 4, 2013.

Discussion

The peer review process began approximately one month prior to the site visit. Internal Audit worked with an ALGA peer review coordinator to schedule the review. The coordinator solicited volunteers nationally and evaluated those volunteers' independence with regard to OCTA and Internal Audit personnel. The peer review team assembled for OCTA's peer review included an auditor from the City of Atlanta, Georgia and another from the City of Dallas, Texas.

Prior to the site visit, the peer review team was provided with Internal Audit's policies and procedures manual, organizational chart and staff information, OCTA background information, an inventory of all audits completed during the three year period, and a description of Internal Audit's quality control system.

Once on site, the peer review team conducted interviews of staff, reviewed audit workpapers, reports, quarterly audit plan updates, and other documents produced by Internal Audit. The peer review team also evaluated Internal Audit's independence and reviewed training records and personnel evaluations.

The peer review team concluded that Internal Audit's quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for the period January 1, 2010 through December 31, 2012.

In addition to issuing its report on compliance with the Standards, ALGA's peer review team provided Internal Audit with a management letter (Attachment B). The peer review team recognized Internal Audit for maintaining detailed policies and procedures that provide good guidance to staff, particularly in the areas of evaluating significant processes, assessing risk, and assessing the reliability of computer processed data. Also, the team recognized Internal Audit staff as well-qualified and experienced, and complimented the office for establishing and meeting high productivity targets. Finally, the team recognized the office for contributing to an organizational culture that respects and supports the work of Internal Audit.

The review team also included two observations and recommendations. The team identified that the audit planning memorandum prepared for one audit did

not include a description of all relevant control attributes, although the workpaper file did include summaries and source documents relevant to internal controls. To address this, Internal Audit responded that the audit planning memorandum template would be updated to specifically outline an area for such documentation.

The peer review team also identified two audit reports that did not include sufficient information to support the reported conclusions of adequate controls. The team acknowledged that audit workpaper files included sufficient evidence; however, it was recommended that report language include clear evidence for stated conclusions. Internal Audit agreed and responded that an additional step would be developed to ensure review of report conclusion statements in relation to identified audit objectives, scope, and methodology.

Internal Audit's response to the external quality assurance review can be found at Attachment C.

Summary

A peer review has been completed of the Internal Audit Department. The peer review found that Internal Audit's quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for the period January 1, 2010 through December 31, 2012. The peer review team provided two recommendations to further strengthen the internal quality control system.

Attachments

- A. External Quality Control Review of the Orange County Transportation Authority Internal Audit Department
- B. Letter from Association of Local Government Auditors to Janet Sutter, regarding peer review of the Internal Audit Department for the period January 1, 2010 through December 31, 2012, dated February 8, 2013
- C. Letter of Response to Association of Local Government Auditors letter dated February 8, 2013, from Janet Sutter, dated February 13, 2013

Approved by:



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



External Quality Control Review

of the
Orange County Transportation
Authority Internal Audit Department

Conducted in accordance with guidelines of the
**Association of Local Government
Auditors**
for the period January 1, 2010-December 31, 2012



Association of Local Government Auditors

February 8, 2013

Janet Sutter, Executive Director, Internal Audit Department
Orange County Transportation Authority
550 S. Main Street
Orange, CA 92863

Dear Janet,

We have completed a peer review of the Internal Audit Department for the period January 1, 2010, through December 31, 2012. In conducting our review, we followed the standards and guidelines contained in the Peer Review Guide published by the Association of Local Government Auditors (ALGA).

We reviewed the internal quality control system of your audit organization and conducted tests in order to determine whether your internal quality control system operated to provide reasonable assurance of compliance with Government Auditing Standards issued by the Comptroller General of the United States. Our procedures included:

- Reviewing the audit organization's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of audit and attestation engagements and working papers.
- Reviewing documents related to independence, training, and development of auditing staff.
- Interviewing auditing staff, management, and a member of the Audit Committee to assess their understanding of, and compliance with, relevant quality control policies and procedures.

Due to variances in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

Based on the results of our review, it is our opinion that the Orange County Transportation Authority Internal Audit Department's internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for audits and attestation engagements during the period January 1, 2010, through December 31, 2012.

We have prepared a separate letter offering suggestions to further strengthen your internal quality control system.

Amanda Noble
City Auditor's Office
Atlanta, GA

Thandee Kywe
City Auditor's Office
Dallas, TX



Association of Local Government Auditors

February 8, 2013

Janet Sutter, Executive Director, Internal Audit Department
Orange County Transportation Authority
550 S. Main Street
Orange, CA 92863

Dear Janet,

We have completed a peer review of the Internal Audit Department for the period January 1, 2010, through December 31, 2012, and issued our report thereon dated February 8, 2013. We are issuing this companion letter to offer certain observations and suggestions stemming from our peer review.

We would like to mention some of the areas in which we believe your office excels:

- The office's detailed policies and procedures manual provides good guidance to staff especially on evaluating significant processes, assessing risk, and assessing the reliability of computer processed data.
- Staff members are well-qualified and experienced.
- The office has established and met a high productivity target.
- The office has contributed to a culture that respects and supports the audit function.

We offer the following observations and suggestions to enhance your organization's demonstrated adherence to Government Auditing Standards:

- Standard 6.07 requires auditors to plan the audit to reduce audit risk to an appropriate level for the auditors to obtain reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions. The Internal Audit Policies and Procedures require preparation of an Audit Planning Memorandum to document relevant controls. On one of the eight audit files we reviewed, the Audit Planning Memorandum did not identify all relevant control attributes, although the workpaper file contained summaries and source documents relevant to internal controls.

We recommend that you ensure that auditors consistently document their preliminary assessment of relevant internal controls in the Audit Planning Memorandum.

- Standard 7.14 requires auditors to present in the audit report sufficient, appropriate evidence to support the findings and conclusions in relation to the audit objectives. In two of the eight audit reports we reviewed, the evidence supporting a conclusion that adequate controls were in place was unclear. Files contained sufficient evidence to support the conclusions, but the evidence wasn't clearly described in the report.

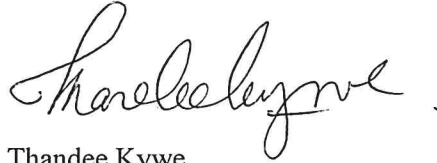
We recommend that you establish a procedure that audit conclusion statements be tied to audit workpapers to ensure consistent language and definitions and that the report presents sufficient, appropriate evidence to support the conclusions in relation to the audit objectives.

We extend our thanks to you, your staff and the other officials we met for the hospitality and cooperation extended to us during our review.

Sincerely,



Amanda Noble
City Auditor's Office
Atlanta, GA



Thandee Kywe
City Auditor's Office
Dallas, TX



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*Will Kempton
Chief Executive Officer*

February 13, 2013

ALGA Peer Review Team Leader
Amanda Noble, Deputy City Auditor
City of Atlanta
City Auditor's Office
68 Mitchell Street, Suite 12100
Atlanta, GA 30303

ALGA Peer Review Team Member
Thandee Kywe, Assistant City Auditor III
Dallas City Auditor's Office
1500 Marilla Street, Office 2FN
Dallas, TX 75201

Dear Mses. Noble and Kywe:

I have reviewed your report dated February 8, 2013, containing the results of your peer review of the Internal Audit Department (Department) of the Orange County Transportation Authority (OCTA), performed using guidelines established by the Association of Local Government Auditors (ALGA). Department staff is pleased that you found our internal quality control system was suitably designed and operating effectively during the audit period January 1, 2010 through December 31, 2012.

Department staff appreciates the review team's recognition of areas in which the Department excels and recommendations to enhance compliance with Government Auditing Standards (GAS). Following are my responses to your recommendations.

Recommendation 1: Ensure auditors consistently document their preliminary assessment of relevant internal controls in the Audit Planning Memorandum (APM).

While not a requirement of GAS, Department policies and procedures require that specific elements of audit planning be documented in the APM. Department staff agrees that these procedures should be adhered to in all instances and will revise the current APM template to specifically outline an area for such documentation.

Mses. Noble and Kywe
February 13, 2013
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Recommendation 2: Audit conclusion statements should be tied to audit workpapers to ensure consistent language and definitions and that the report presents sufficient, appropriate evidence to support conclusions in relation to audit objectives.

The Department agrees that establishing an additional step to review audit conclusion statements against audit workpapers to ensure consistency in language and to ensure reports include sufficient, appropriate evidence is a helpful suggestion. Department staff will update the Department policies and procedures and quality control checklists to include a more detailed review of the report conclusion in relation to identified audit objectives, scope, and methodology.

The Department found the ALGA Peer Review to be a very valuable and constructive process. Department staff very much appreciates the time you took away from your own departments to review our operation. Thank you for the professional and thorough manner in which you conducted this work, and for the opportunity to share ideas that we can apply in our respective organizations.

Sincerely,



Janet E. Sutter, Executive Director
Internal Audit

c: Mr. Todd Spitzer, Chairman, OCTA Finance and Administration Committee
Mr. Will Kempton, Chief Executive Officer
Mr. Darrell Johnson, Deputy Chief Executive Officer
Ms. Wendy Tingom Simeon, ALGA Review Coordinator