



July 22, 2020

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2019-20 Internal Audit Plan, Fourth Quarter Update

Overview

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2019-20 Internal Audit Plan on August 12, 2019. This update is for the fourth quarter of the fiscal year.

Recommendation

Receive and file the fourth quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2019-20 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, and agreed-upon procedures reviews. Audits initiated by entities outside of OCTA are coordinated through Internal Audit.

Discussion

The OCTA Internal Audit Fiscal Year (FY) 2019-20 Internal Audit Plan (Plan), Attachment A, reflects the status of each audit project as of year-end.

For the Plan year, Internal Audit completed 51 projects, including 34 price reviews, 15 internal audits, one unscheduled agreed-upon procedures review, and one Buy America review. As reflected in the Plan, time spent on price reviews was under-estimated, resulting in an overage of approximately 600 hours. This loss of resources impacted Internal Audit's ability to complete the Plan and, as of June 30, 2020, three internal audits are in progress and one project has not yet been initiated. All projects not yet complete or initiated will be carried forward to the FY 2020-21 Internal Audit Plan.

During the fourth quarter, Internal Audit issued results of an audit of controls in place related to the Federal Motor Carrier Safety Administration regulations, California Department of Motor Vehicle requirements, and policies and procedures for employees required to hold a commercial driver license and a current medical certificate. The audit found controls are adequate to ensure employees obtain required medical exams and certificates, and procedures to ensure compliance with requirements to reimburse costs and time to employees that obtain medical recertification are adequate. Finally, invoice review controls for the contract with the provider, ProCare, are generally adequate.

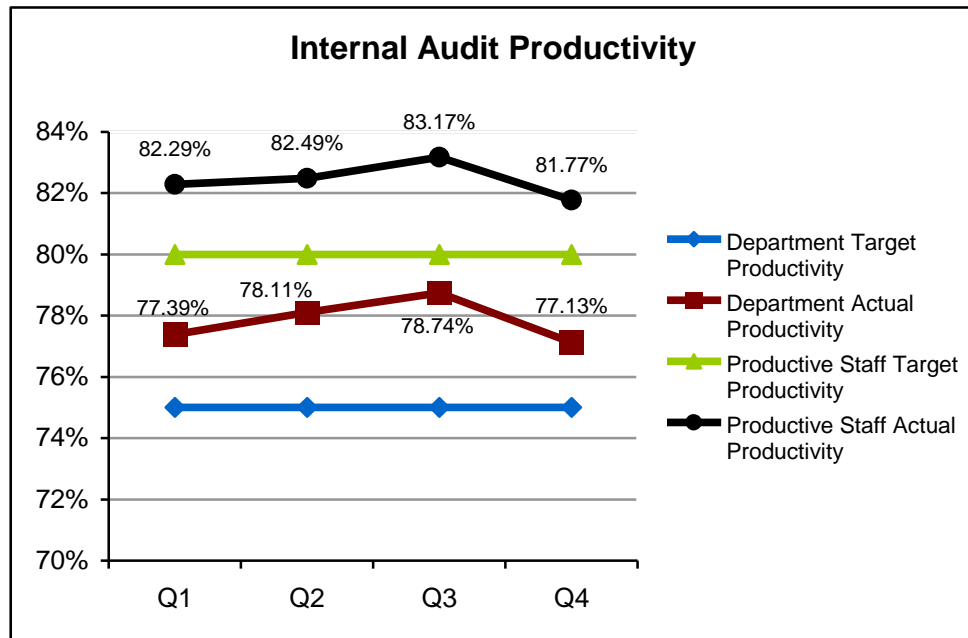
An audit of revenue vehicle maintenance was also completed and concluded that controls in place to ensure compliance with vehicle maintenance standards and OCTA policy and procedures are generally adequate. One recommendation was made to further enhance work order templates. Management agreed and indicated that deviations from the manufacturer's preventive maintenance standards would be documented going forward.

Also, during the quarter, Internal Audit provided results of agreed-upon procedures applied to selected cities to determine compliance with the Measure M2 Local Fair Share (LFS) and Senior Mobility programs. The audits were conducted by Crowe, LLP, an independent accounting firm, and included observations of ineligible maintenance of effort (MOE) expenditures, misreporting of charges and/or fund balance, late submission of reports, lack of competitive procurement of third-party vendors, missing contract provisions, and inadequate tracking of ineligible trips. After removal of ineligible MOE expenditures, the City of Anaheim (Anaheim) failed to meet the minimum MOE requirement. However, Anaheim pointed out that the ineligible MOE expenditures qualified as LFS expenditures and that allowable MOE expenditures, sufficient to meet their MOE minimum requirement, had been recorded against their LFS fund.

Internal Audit Department 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. The target for Internal Audit professional staff, not including the executive director, is 80 percent.

By the quarter ended June 30, 2020, Internal Audit had achieved cumulative productivity of 77 percent, and the professional staff achieved cumulative productivity of 82 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management (CAMP) Department, and consistent with OCTA's procurement policy, Internal Audit conducts reviews of single bid procurements to ensure that CAMP 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 fourth quarter, Internal Audit completed nine price reviews. For the year ended June 30, 2020, a total of 34 price reviews were issued.

Fraud Hotline

Internal Audit is responsible for administering the OCTA Fraud Hotline. The fraud hotline system allows reporters to file complaints anonymously through the internet or by calling a toll-free phone number. Complaints may also be received in person, by phone, or by mail directly to Internal Audit. To ensure proper recordkeeping, all complaints are recorded in the Ethicspoint system, regardless of how the complaint is received.

During the quarter ended June 30, 2020, Internal Audit received five reports. Three reports were customer complaints and were referred to management for disposition. One complaint was investigated by Internal Audit but was not substantiated, and another complaint is under investigation at year-end.

Outstanding Audit Recommendations Tracking

At the request of the Finance and Administration Committee, a listing of outstanding audit recommendations is included with the quarterly updates to the Plan as Attachment B.

For the quarter ended June 30, 2020, Internal Audit completed follow-up reviews of nine outstanding audit recommendations. Seven of the recommendations were fully implemented by management and were closed out. Another recommendation, from the Orange Transportation Center Parking Structure audit, was not fully implemented, as management, in consultation with legal counsel, determined that contract language relating to labor force account costs is sufficiently clear and that the observation by Internal Audit of errors in payment calculations was the result of errors on the part of the construction manager. This recommendation was closed. One other recommendation from the Orange Transportation Center Parking Structure audit was not yet fully implemented and will remain open pending another follow-up review in six months.

Follow-up of another three recommendations from the Bus Marketing audit are in process. One recommendation was added to the listing based on the Revenue Vehicle Maintenance audit, summarized above.

Summary

The OCTA Internal Audit FY 2019-20 Plan is being closed-out. Projects that are in process, and one project that has not been initiated, will be carried forward to the OCTA Internal Audit FY 2020-21 Plan. Internal Audit will continue to perform follow-up of all outstanding findings and recommendations.

Attachments

- A. Orange County Transportation Authority Internal Audit Department Fiscal Year 2019-20 Internal Audit Plan, Fourth Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through June 30, 2020
- C. Audit Recommendations Closed During Fourth Quarter, Fiscal Year 2019-20

Prepared by:



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

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2019-20 Internal Audit Plan
Fourth 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 Procedures Reviews	FY20-001 through FY20-004	Coordinate and report on annual financial and agreed-upon procedures reviews for fiscal year 2019-20.	Financial	450	529	(79)	Complete
Federal Triennial Review	FY20-006	Coordinate and report on results of the required Federal Transit Administration's Triennial Review.	Compliance	80	14	66	Issued 10-31-19
External Regulatory Audits	FY20-005	Coordinate and report on external audits by regulatory or funding agencies.	Compliance	60	4	56	
Internal Audit Department Projects							
Risk Assessment and Annual Audit Plan	FY20-100	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	200	153	47	
Quality Assurance and Self-Assessment	FY20-101	Update of Internal Audit Policies & Procedures. Annual self assessment of the Internal Audit Department's (Internal Audit) compliance with Government Auditing Standards.	Quality Assurance	160	153	7	
Fraud Hotline Activities	FY20-102	Administrative duties related to maintenance of the fraud hotline and work related to investigations of reports of fraud, waste, or abuse.	Fraud Hotline	240	73	167	23 Reports Year-to-Date
Automated Workpaper Solution	FY20-103	System updates/training related to automated workpaper solution.	Workpaper System	40	37	3	
Internal Audits							
Clerk of the Board							
Board Compensation and Ethics Compliance	FY19-513	Review procedures and record-keeping processes evidencing compliance with Assembly Bill 1234.	Compliance	180	202	(22)	Complete 10-31-19
Express Lanes Program							
Master Custodial Agreement	FY19-514	Review and test activities related to the Master Custodial Agreement between the Orange County Transportation Authority (OCTA), Riverside County Transportation Commission, and the Bank of the West for tracking and deposit of revenues and transponder deposits.	Compliance	300	308	(8)	Complete 12-10-19
Human Resources and Organizational Development							
Medical Exams	FY20-508	Assess and test controls to ensure compliance with Federal Motor Carrier Safety Administration regulations, policy and procedures related to employee medical safety certifications.	Compliance	180	496	(316)	Complete 5-5-20
Department of Motor Vehicles (DMV) Pull Notice Program	FY20-5XX	Assess and test operation of the DMV Pull Notice Program.	Compliance	240		240	

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2019-20 Internal Audit Plan
Fourth Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
Capital Programs							
Interstate 5 (I-5) Project: State Route (SR) 55 to SR-57	FY20-510	Review the I-5 Project: SR-55 to SR-57, including project administration, oversight controls, and contract compliance.	Internal Control/ Compliance	300	180	121	In Process
Orange Transportation Center Parking Structure Project	FY19-508	Review of the Orange Transportation Center Parking Structure Project, including project administration, oversight controls, and contract compliance.	Internal Control	220	184	37	Complete 10-31-19
Planning							
Comprehensive Transportation Funding Programs (CTFP): Oversight and Reporting	FY20-512	Review and assessment of OCTA's monitoring and reporting controls related to CTFP projects.	Internal Control	240	94	146	In Process
Operations							
Coach Operator Scheduling	FY19-505	Review the coach operator scheduling process, including the use of the HASTUS application.	Operational	80	88	(8)	Complete 8-26-19
Same Day Taxi Service	FY20-503	Assess adequacy of oversight controls and contract compliance with key provisions of the agreement with Yellow Cab of Orange County for the provision of Same Day Taxi Service.	Internal Control/ Compliance	300	279	22	Complete 1-8-20
Revenue Vehicle Maintenance	FY20-506	Evaluate the adequacy of controls in place to ensure compliance with revenue vehicle maintenance standards and test for compliance with maintenance policy and procedures.	Operational	300	361	(61)	Complete 5-26-20
Finance and Accounting							
Treasury	FY20-502, FY20-509	Semi-annual review of investments: compliance, controls, and reporting.	Compliance	200	313	(113)	Complete 11-4-19, 3-24-20
Grant Closeouts	FY19-510	As-needed, required financial and compliance audits of grants at closeout to ensure propriety of expenditures.	Compliance	40	22	18	Complete 7-31-19
Renewable Natural Gas Credits	FY19-511	Review and test compliance with the agreement with Element Markets for renewable gas credits.	Compliance	60	23	37	Complete 7-16-19
Corporate Credit Cards	FY20-504	Evaluate the adequacy of controls over corporate credit cards and test for compliance with policy and procedures.	Operational	240	222	18	Complete 12-23-19
Interagency Revenue Agreements	FY20-505	Review and test activities related to the interagency fare revenue agreements between OCTA and Southern California Regional Rail Authority and the Los Angeles-San Diego-San Luis Obispo Rail Corridor Agency.	Operational	240	196	44	Complete 2-5-20
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.	Operational/ Compliance	240	169	71	In Process
Information Systems							
Patch Management	FY20-501	Assess the adequacy of the patch management program.	Operational	120	122	(2)	Complete 2-18-20

**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2019-20 Internal Audit Plan
Fourth 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	PR20-0XX	As requested by the Contracts Administration and Materials Management (CAMM) Department, apply agreed-upon procedures to sole source, single bid, and architectural and engineering firm proposals.	Price Review	800	1,402	(602)	34 Reports Issued
Buy America	FY20-511	As requested by CAMM, apply agreed-upon procedures to determine compliance with Buy America requirements.	Buy America	200	69	131	1 Report Issued
External Affairs							
Bus Marketing	FY19-512	Review the bus marketing program; assess and test oversight controls and contract compliance over contracts for bus marketing.	Operational/ Compliance	160	453	(293)	Complete 12-5-19
Unscheduled Reviews and Special Requests							
Unscheduled Reviews and Special Requests	FY20-800	Time allowed for unplanned audits and/or to address requests from the Board of Directors (Board) and management.	Varies	240	177	63	1 Report Issued
COVID-19 Response and Downtown							
COVID-19 Response	FY20-XXX	Time spent working on COVID-19 Response.		-	50	(50)	
COVID-19 Downtime	FY20-XXX	Downtime related to COVID-19.		-	84	(84)	
Monitoring Activities							
Measure M Taxpayer Oversight Committee (TOC)	FY20-601	Coordination of audit activities on behalf of the Audit Subcommittee of the TOC.	Administrative Support	60	37	23	
Metrolink Audit Activities	FY20-602	Obtain and review audit results of Metrolink activities.	Non-Audit Service	40	1	39	
Capital Asset Inventory Observation	FY20-604	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	4	76	Delayed due to COVID-19
Bus Base Inspections	FY20-603	At the request of the Operations Division, participation on annual base inspection teams.	Non-Audit Service	40	20	20	Complete
Follow-up Reviews							
Follow-up Reviews and Reporting	FY20-700	Follow-up on the status of management's implementation of audit recommendations.	Follow-up	320	258	63	
Total Audit Project Planned Hours (A)				6,650	6,774	(124)	

Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2019-20 Internal Audit Plan
Fourth 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	54	
Executive Steering and Agenda Setting Meetings				180	128	53	
Internal Audit Staff Meetings				150	143	7	
Other Administration				1,500	1,611	(111)	
			Total Hours (B)	8,660	8,782	(122)	
			Department Target Efficiency (A/B)	75%	77%		
			Target Efficiency - Professional Staff	80%	82%		

**Outstanding Audit Recommendations
Audit Reports Issued Through June 30, 2020**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response and Status	Internal Audit Status
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.	Oct-20	Capital Programs will work with the Contracts Administration and Materials Management (CAMM) Department to include language in the Personnel Qualifications and Responsibilities section of future request for proposals to require both prime contractors and sub-consultants to have an adequate labor timekeeping system. During project kick-off meetings after contract execution, and in on-going meetings with the project managers, CAMM staff will emphasize the need for timely submission of requests for amendments.	Update June 2020: CAMM is reminding 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. This part of the recommendation will be closed. CAMM is planning to discuss requirements for consultant labor timekeeping systems at an upcoming meeting with a local engineering professional organization. This part of the recommendation will remain open pending the outcome of the meeting and CAMM's determination of the appropriate action.
12/5/19	19-512	External Affairs	Bus Marketing	Management should revise practices to ensure that contracts for similar services are combined and contract terms are set for longer periods when recurring services are sought. Management should train staff and perform monitoring, to ensure procurements are not being designed to fall under approval thresholds.	Jun-20	Management concurs and has begun to implement practices to have longer terms and consolidate future contracts for similar services to support Bus Marketing needs. External consulting expertise will be procured to provide project management training. Management has also implemented a requisition process with added controls that will ensure procurements are not being designed to fall under approval thresholds.	Update in Process
12/5/19	19-512	External Affairs	Bus Marketing	Management should undergo training to reiterate the responsibilities of those charged with reviewing and approving invoices. Invoice Review Checklists should be blank and completed as invoices are reviewed.	Jun-20	Management has implemented a program controls function for all marketing and customer engagement contracts. This new function will ensure thorough and accurate reviews, approvals, and payments of contract invoices. Additionally, training will be provided.	Update in Process
12/5/19	19-512	External Affairs	Bus Marketing	Internal Audit recommends written procedures be reviewed with project managers and management require documented compliance with requirements. Documentation should include the source and support of stated evaluation criteria and related results.	Jun-20	Management will evaluate and update the current processes and procedures manual to reflect current needs and work environment to include the source and support of stated evaluation criteria and related results. It is expected that the new processes, procedures, and training will be completed by the end of December 2020.	Update in Process

**Outstanding Audit Recommendations
Audit Reports Issued Through June 30, 2020**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response and Status	Internal Audit Status
1/8/20	20-503	F&A	Same-Day Taxi Service	For future procurements, Internal Audit recommended that management assess the likelihood of competition. Internal Audit also recommended that management ensure compliance with policy and procedures (P&P) or revise the P&P accordingly.	Jul-20	Management agreed to comply with the recommendation and will conduct an industry workshop with potential vendors to assess the likelihood of competition in the future. Management will also revise the P&P to require that staff follow the competitive negotiated procurement procedures when single proposals are received.	
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.	Aug-20	Management agreed with the recommendations and indicated that progress has been made, and efforts will continue, to implement these improvements.	
5/26/20	20-506	Operations	Revenue Vehicle Maintenance	Internal Audit recommends that management either incorporate several preventive maintenance tasks into the work order templates or document variances from the manufacturer guidelines with justification.	Nov-20	Maintenance concurs with the recommendation to incorporate these tasks into the work order templates or document variances from the manufacturer recommendation with justification. Maintenance will apply the recommended solution to the items outlined in the audit within the next six months and adopt this procedure for all subsequent deviations going forward.	

**Audit Recommendations Closed During
Fourth Quarter, Fiscal Year 2019-20**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Internal Audit Status Comments
6/17/19	19-506	Human Resources and Organizational Development (HROD)	Construction Safety Program	Management should further develop policies, procedures, and guidelines to provide a comprehensive, risk-based framework for monitoring contractor compliance with construction safety regulations.	Management has revised the safety specifications levels and the Contactor Safety Management Policy to provide additional guidance as to responsibilities and requirements. In addition, a project manager training program was developed and training sessions conducted in March 2020.
6/17/19	19-506	HROD	Construction Safety Program	Internal Audit recommends that management develop procedures for documenting and tracking safety activities. Documented activities, and follow-up of safety issues observed, should be retained and used to complete monthly activity reports.	Management has developed and is using the Occurrence Tracking System (OTS) to track and follow-up on safety observations. The revised Contractor Safety Management Policy addresses use of the OTS and project manager training was conducted in March 2020. Support for monthly activity reports is retained.
10/31/19	19-513	Clerk of the Board (COB) and HROD	Board Member Compensation, Mileage Reimbursements, and Training	Internal Audit recommends management update policies and procedures to address all applicable payments and payees, to require training of all compensated persons representing the Orange County Transportation Authority (OCTA) on boards and/or committees, and to ensure proper communication of policies to Board of Directors (Board) members, and former Board members representing OCTA, on a periodic basis.	The COB has updated policy and procedures and communicated to the Board of Directors. HROD has added language to the Personnel and Salary Resolution and presented for Board approval with the FY 2020-21 budget.
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	Internal Audit recommends that independent cost estimates (ICE's) be prepared prior to receipt of price and cost information from contractors. Internal Audit also recommends that project management instruct construction management consultants (CM's) to retain documentation evidencing scrutiny of force account costs, including credits. For future contracts, Internal Audit recommends contract language outlining labor costs paid on force account be clarified and enforced, with consideration for treatment of payroll insurance and taxes.	Capital Programs has updated the Rail Programs Department Construction Management Procedures Manual to provide more information on ICE requirements. Capital Programs has also asked its program managers to remind CM's of the requirement to retain documentation evidencing their review of force account costs billed, including any credits. Contracts Administration and Materials Management, in consultation with legal counsel, has decided not to change the contract language on force account labor; attributing the finding to the specific CM's error rather than an issue with the contract language.

**Audit Recommendations Closed During
Fourth Quarter, Fiscal Year 2019-20**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Internal Audit Status Comments
10/31/19	19-508	Government Relations	Oversight Controls and Contract Compliance related to the Orange Transportation Center Parking Structure Project	Internal Audit recommends management develop and implement written procedures to outline roles and responsibilities of staff tasked with implementing operations and maintenance agreements, and performing ongoing oversight of agencies taking possession of assets built with federal funds.	Government Relations has developed written procedures for monitoring federally-funded subrecipient facilities and incorporated them into the cooperative agreement with the City of Orange.
11/4/19	20-502	F&A	Investments: Compliance, Controls, and Reporting January 1, 2019 through June 30, 2019	Internal Audit recommends the Treasury Department implement and document a more robust secondary review to ensure the accuracy of investment information presented to the Board.	Management is utilizing a checklist to validate data input in the quarterly reports and signs off on these checklists as evidence of review.
11/4/19	20-502	F&A	Investments: Compliance, Controls, and Reporting January 1, 2019 through June 30, 2019	Internal Audit recommends that management revise the policy compliance schedule to evaluate all applicable investments in accordance with the policy. Also, if management intends to exempt debt reserve funds from diversification and maturity limits, the policy should be updated accordingly. Finally, the schedule should include information on indenture requirements and determination of compliance.	The Investment Compliance schedules in the Third and Fourth Quarter 2019 Reports included cash equivalents. The Fourth Quarter 2019 Report also disclosed information on indenture requirements. During June 2020, the Investment Policy was updated to address the debt reserve funds exemption.
12/20/19	20-504	F&A	Corporate Credit Cards	Management should update policies to provide additional guidance for obtaining and documenting approvals.	Management has updated policies, procedures, and forms to clarify approval requirements.