



October 27, 2021

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, First 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 first quarter of the fiscal year.

Recommendation

Receive and file the first 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 first quarter of the FY, Internal Audit issued results of an audit of administrative controls related to the OCTA Conflict of Interest Code and the California Form 700 Statement of Economic Interests (Form 700) filing process. Based on the audit, internal controls related to coordination of Form 700 statements by designated employees are in place; however, Internal Audit recommended a process be established for evaluation and identification of contractors as designated filers, and improvements be made in the identification and reporting of designated positions and notification of leaving office filing requirements. As to OCTA contractors, management responded that, in coordination with legal counsel and the Contracts Administration and Materials Management (CAMM) Department, a process will be developed. Management also agreed to take actions and adjust procedures to address identification of designated positions and leaving office filing requirements.

Internal Audit also issued results of the semi-annual audit of investments for the period January 1 through June 30, 2021. Based on the audit, OCTA complied with its debt, investment, and reporting policies and procedures; however, Internal Audit did recommend that staff consistently document resolution of all issues flagged in the Clearwater compliance module and consider customizing the module to better reflect OCTA policy. Management agreed to document all resolutions and update the compliance module to improve monitoring.

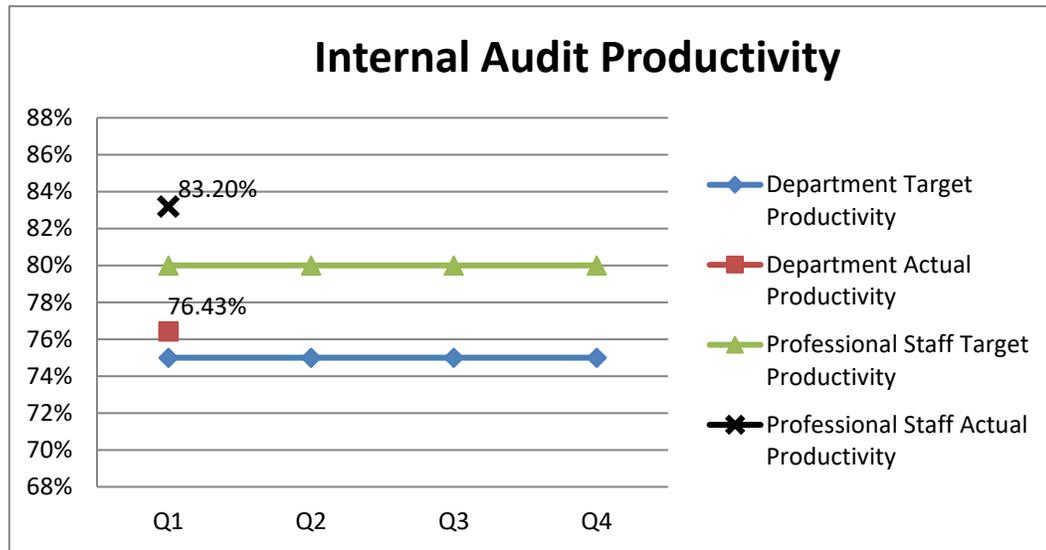
Also, during the quarter, results of an audit by the Department of Finance, Office of State Audits and Examinations, of Proposition 1B funds awarded to OCTA for the Lakeview Avenue Grade Separation, Brookhurst Street Improvements, La Pata Avenue Phase 1, and Laguna Niguel to San Juan Capistrano Passing Siding projects were received and communicated to the Finance and Administration Committee and the Board of Directors. The audit report found that expenditures were generally in compliance with project agreements and program guidelines; however, four observations were made related to unsupported contract change order expenditures, late submission of final delivery reports, reporting of project benefits/outcomes, and oversight of administering agencies' procurement processes. The results of the audit were transmitted to the California Department of Transportation, which will be responsible for developing a corrective action plan for final disposition of these observations and related recommendations. Management will work, as requested, with the California Department of Transportation on appropriate disposition of the observations and recommendations identified through the audit.

The primary focus of Internal Audit as of September 30, 2021, and in the ensuing months, will be to provide coordination of the annual financial audits and agreed-upon procedure reviews conducted by OCTA's independent auditor, Crowe LLP.

Internal Audit Productivity

Internal Audit measures the productivity of the department by calculating a productivity ratio. The ratio, used broadly throughout the audit industry, measures the amount of time auditors spend on audit projects versus time spent on administrative duties. Productivity goals are established for both the professional staff and for the department as a whole. Because the executive director regularly participates in non-audit management activities such as planning and committee meetings, the department-wide target is set at 75 percent. The target for internal audit professional staff, not including the executive director, is 80 percent.

For the first quarter ended September 30, 2021, Internal Audit achieved productivity of 76 percent, and the professional staff achieved productivity of 83 percent.



Price Reviews

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

Fraud Hotline

During the quarter ended September 30, 2021, Internal Audit received six reports through OCTA's Fraud Hotline, www.ethicspoint.com. Based on the nature of the complaints, five reports were referred to appropriate internal management or external agencies. One report was investigated by Internal Audit; however, the complaint was not substantiated. 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 September 30, 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 (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 September 30, 2021, Internal Audit completed follow-up reviews of five outstanding audit recommendations and closed four (Attachment C). One recommendation was partially closed, and follow-up will be performed in another six months. In addition, four recommendations were added as a result of audits issued during the first 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, First Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through September 30, 2021
- C. Audit Recommendations Closed During First Quarter, Fiscal Year 2021-22

Approved by:



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

**Orange County Transportation Authority
Fiscal Year 2021-22 Internal Audit Plan
First 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	FY22-001 through FY22-004	Coordinate and report on annual financial and AUP reviews for FY 2020-21.	Financial	425	83	342	In Process
External Regulatory Audits	FY22-005	Coordinate and report on external audits by regulatory or funding agencies.	Compliance	32	1	31	
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	91	89	In Process
Internal Audit Department Projects							
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	31	150	
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	7	113	
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	34	127	6 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	3	117	
Automated Workpaper Solution	FY22-103	System updates/training related to automated workpaper solution.	Workpaper System	40	3	37	

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Internal Audits							
Security and Emergency Preparedness							
Physical Access Security	FY21-511	Review and test controls in place to ensure adequate physical access security at OCTA locations.	Internal Control / Operational	140	267.5	(128)	In Process
Clerk of the Board							
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	
Express Lanes Program and Motorist Services							
Freeway Service Patrol	FY22-5XX	Review and test oversight, compliance, and invoice review controls over freeway service patrol activities and consultants.	Operational/ Compliance	240		240	
Human Resources and Organizational Development							
Benefit Programs: Incentives	FY22-502	Assess and test policies, procedures, and controls over employee incentive programs.	Operational	240	90	150	In Process
Temporary Staffing	FY22-5XX	Assess and test oversight, contract compliance, and invoice review controls related to temporary staffing contracts and services.	Operational/ Compliance	240		240	
Capital Programs							
OC Streetcar - Construction	FY22-5XX	Review of oversight controls, contract compliance, and invoice review controls related to construction of the OC Streetcar project.	Internal Control / Compliance	320		320	
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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Operations							
Facilities Maintenance	FY21-507	Review of facilities maintenance function within Operations Division, including oversight controls and contract compliance.	Operational / Compliance	180	178	2	In Process
Revenue Vehicle Purchases	FY22-5XX	Review revenue vehicle purchase activities to determine compliance with regulations, policies, and procedures.	Internal Control/ Operational	240		240	
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	
Finance and Accounting							
Treasury	FY22-501	Semi-annual review of investments: compliance, controls, and reporting.	Compliance	300	118	182	
Information Systems							
Cybersecurity	FY22-5XX	Design a scope of work and procure an audit consultant to evaluate OCTA's Cybersecurity program.	Internal Control/ Operational	100		100	
Contract Administration and Materials Management (CAMM)							
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	233	668	5 Reports Issued
Buy America	FY22-XXX	As requested by the CAMM Department, apply AUP to determine compliance with Buy America requirements.	Buy America	160		160	

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External Affairs							
Public Outreach	FY22-5XX	Assess and test oversight, contract compliance, and invoice review controls related to public outreach activities for the Interstate 405 Project.	Internal Control/ Compliance	240		240	
Unscheduled Reviews and Special Requests							
Unscheduled Reviews and Special Requests	FY21-802, FY22-800	Time allowed for unplanned audits and requests from the Board or management.	Varies	240	178	62	1 Report Issued
Monitoring Activities							
Measure M Taxpayer Oversight Committee (TOC)	FY22-601	Coordination of audit activities on behalf of the Audit Subcommittee of the TOC.	Administrative Support	60	8	52	
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	14	46	In Process
Follow-Up Reviews							
Follow-Up Reviews and Reporting	FY22-700	Follow-up on the status of management's implementation of audit recommendations.	Follow-Up	240	32	209	
Total Audit Project Planned Hours (A)				6,081	1,382	4,700	

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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	43	137	
Executive Steering and Agenda Setting Meetings				180	40	140	
Internal Audit Staff Meetings				140	21	120	
Other Administration				1,375	323	1,053	
Total Hours (B)				7,956	1,808	6,149	
Department Target Efficiency (A/B)				75%	76%		
Target Efficiency - Professional Staff				80%	83%		

**Outstanding Audit Recommendations
Audit Reports Issued Through
September 30, 2021**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
11/16/20	Not Applicable	Finance and Administration (F&A)	Fiscal Year (FY) 2019-20 Management Letter	In connection with the audit of the Orange County Transportation Authority's (OCTA) 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 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.	<u>Update July 2021</u> :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 FY 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.

**Outstanding Audit Recommendations
Audit Reports Issued Through
September 30, 2021**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
4/27/21	21-506	Operations	Review of Oversight Controls and Contract Compliance: Bridgestone-Firestone 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.	Oct-21	Management agreed and advised that the Contracts Administration and Material Management (CAMP) 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.	
4/27/21	21-506	Operations	Review of Oversight Controls and Contract Compliance: Bridgestone-Firestone 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.	Oct-21	Management agreed and immediately worked with Bridgestone and HSEC to ensure all required safety documentation was provided. Management has advised Bridgestone of the requirement to maintain all documentation pertaining to safety inspections, training, staffing, and recordable injuries. Management will monitor for compliance. Finally, Bridgestone has committed to provide documented tire inventory levels each month.	
4/27/21	21-506	Operations	Review of Oversight Controls and Contract Compliance: Bridgestone-Firestone 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.	Oct-21	Management agreed and requested that Bridgestone re-torque the wheels on the entire fleet at the Irvine Construction Circle Base to ensure all wheels are torqued to specification. Management also asked that Bridgestone maintain documentation of all re-torque occurrences at the Irvine Construction Circle Base and provide monthly reports to the project manager.	

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Audit Reports Issued Through
September 30, 2021**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
4/27/21	21-506	Operations	Review of Oversight Controls and Contract Compliance: Bridgestone-Firestone 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.	Oct-21	Management agreed and indicated that Bridgestone will be required to provide an on-boarding checklist that documents that background checks are conducted and qualifications requirements are met. Management will also implement monitoring controls to ensure Bridgestone complies with regulations pertaining to a drug and alcohol-free workplace.	
5/19/21	21-508	Human Resources and Organizational Development (HROD) 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.	
5/19/21	21-508	HROD	DMV Employer Pull Notice Program	Internal Audit recommended the policy be updated to properly define regulated employees, that evidence of No Drive notices be retained, and that controls for updates to the No Drive listing be enhanced.	Nov-21	Management agreed and indicated that recommendations will be implemented.	
5/19/21	21-508	HROD 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.	
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.	

**Outstanding Audit Recommendations
Audit Reports Issued Through
September 30, 2021**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response	Internal Audit Status
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 reconcile the designated positions list with Conflict of Interest (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.	
7/15/21	21-510	Executive Office	Administrative Controls Related to Conflict of Interest Code Form 700 Statement of Economic Interests	Internal Audit recommends that the Clerk of the Board (COB) Department implement a procedure 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).	Jan-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.	

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

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Internal Audit Status Comments
2/11/2021	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.	Project Controls management collected the double-billed costs by deducting \$5,857 from a consultant invoice that was processed in February 2021.
2/11/2021	21-503	Finance and Administration (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.	The Contracts Administration and Materials Management Department amended the contract to remove the clause that conflicted with the procurement policy and Capital Programs instructed project managers to include the approved classification billing rate of consultant staff added to the contract as part of the justification memo.
10/12/2020	21-501	Human Resources and Organizational Development (HROD)	Employee Separations	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.	Management has implemented an electronic employee exit form that requires digital signoffs, and has developed enhanced procedures for involuntarily separated employees.
4/28/21	21-509	F&A	Investments: Compliance, Controls, and Reporting, July 1, 2020 through December 1, 2020	Internal Audit recommended that Treasury incorporate suggested assertions into monthly debt and investment reports.	Management updated the March and June 2021 monthly reports to include assertions of compliance with the Investment Policy and confirmation of the ability to meet expenditure requirements for the next six months.
	Not Applicable	Operations and Planning	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.	Management has performed follow-up with the cities to confirm corrective action and obtained updated Expenditure Reports, as applicable.