



**Executive Office**

A handwritten signature in blue ink, appearing to read 'David G. Johnson', is written over a horizontal line.

Chief Executive Officer

**INTERNAL AUDIT POLICY**

**Policy#:** EO-IA-220.01-INTERNAL      **Origination Date:** 03/01/2009      **Revised Date:** 08/12/2021

**I. PURPOSE**

The purpose of this policy is to establish methods, guidelines, access, and protocols of Orange County Transportation Authority's (OCTA) Internal Audit Department.

**II. ORGANIZATIONAL UNITS AFFECTED**

This policy applies to all OCTA employees.

The Executive Director of Internal Audit is responsible for the administration of this policy; OCTA's Chief Executive Officer (CEO) is responsible for ensuring cooperation between the Internal Audit (IA) Department and management in the execution of this policy. Management is responsible for establishing and enforcing adequate internal controls, responding to audit findings and recommendations, and the timely implementation of corrective action related to deficiencies identified in audit reports.

**III. POLICY**

It is the policy of OCTA to establish, maintain, and support the IA Department for the purpose of independent appraisal of OCTA operations. The IA Department will examine and evaluate financial, administrative, and operational activities of OCTA and supply management with information and recommendations to assist them in effective and efficient control of OCTA assets and operations. The IA Department will report the results of its activities to management and the Board of Directors (Board) to assist in the effective discharge of their fiduciary responsibilities. IA will refer to this policy at the outset of each audit engagement.

**IV. DEFINITIONS**

Not applicable.

**V. PROCEDURE**

**A. Implementation of Policy**

The Executive Director of IA will implement this policy through activities including, but not limited to, the following:

1. Developing and executing a risk-based annual audit plan that incorporates evaluations of OCTA's internal accounting and operating controls, its safeguarding of assets, its compliance with contracts, laws and regulations, and its compliance with established OCTA policies and procedures.

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2. Provide reports on the results of all audit activities to management and the Board.
3. Provide reports of quarterly audit activity to the Board, including the status of the implementation of all audit recommendations.
4. Conducting ad-hoc reviews at the request of the Board, or other investigations or examinations related to fraud, illegal acts, violations of provisions of contracts or grant agreements, waste, or abuse.
5. Coordinate and monitor audits by external auditors, including those conducted by independent financial statement auditors and state and federal officials.
6. Comply with Government Auditing Standards, as prescribed by the Comptroller General of the United States, and all other relevant and authoritative audit guidance.
7. Develop and maintain IA Department policies and procedures that comply with Government Auditing Standards.
8. Manage a professional audit staff with sufficient knowledge, skills, experience, and professional credentials to maintain compliance with Government Auditing Standards.
9. Develop and monitor a quality assurance program for the Internal Audit Department and arrange for a triennial Quality Assurance (Peer) Review of the IA Department.
10. Assist the Finance and Administration Committee in fulfilling its audit oversight responsibilities, as specified in "Audit Responsibilities of the Finance and Administration Committee" affirmed annually by the Board.

**B. Audit Protocols in Executing Annual Audit Plan**

In executing its annual audit plan, the IA Department will employ protocols designed to clarify and provide consistency to the audit process. These protocols are in no way meant to restrict audit objectives, scope or access to records or information.

1. Audit Notification Memorandum: An introductory memorandum from IA will be prepared and sent to the executive director responsible for the project or program subject to audit. The introductory memorandum will:
  - a. Identify the project, program, or activities to be audited
  - b. Identify the preliminary audit objectives
  - c. Inform the recipient that an entrance conference will be scheduled
2. Planning: During the planning process, the auditor will gain an understanding of the project or program to be audited. Planning, also referred to as survey work, includes review of relevant policies and procedures, contracts, and financial information. Planning also includes interviews of key personnel. Planning is

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designed to assess risk and controls and define audit objectives and scope. Audit objectives reflect IA's goals in conducting the audit and may include elements such as ensuring adequate internal controls exist to protect OCTA assets, ensuring that there is compliance with agreement terms, or ensuring that a program is carried out in an efficient and effective manner. Audit scope refers to the nature, timing, and extent of detailed tests of underlying transactions.

- 3. Entrance Conference:** An entrance conference will be scheduled. Invitations will be extended to the executive director or his/her designee, the department manager, and any relevant staff (collectively, audit participants). The purpose of the entrance conference is to:
  - a.** Introduce IA Department staff members who will perform the audit
  - b.** Identify the project or program contact person with whom Internal Audit will work
  - c.** Identify key documents or other information related to the project or program
  - d.** Discuss preliminary audit objectives, scope and/or other areas of concern
  - e.** Discuss audit timing and the final audit reporting process
- 4. Audit Fieldwork:** Audit fieldwork generally includes detailed tests of internal controls and transactions. During the course of conducting fieldwork, IA Department staff will advise the Executive Director of IA of any significant findings or concerns, including those which will require a significant deviation from, or additions to, the planned objectives or scope of the audit. IA will communicate such scope changes or significant findings to management.
- 5. Draft Report:** A preliminary draft audit report will be circulated to all audit participants prior to the exit conference. Draft reports are considered unofficial working papers, subject to revisions and will therefore remain restricted in use and distribution, to the IA Department and audit participants.
- 6. Exit Conference:** An exit conference will be held with audit participants. The purpose of the exit conference is to:
  - a.** Confirm the accuracy of all information presented in the draft report
  - b.** Determine if pertinent information and data has been considered
  - c.** Answer questions about the recommendations and findings
  - d.** Discuss proposed revisions or changes
  - e.** Discuss the audit responses and identify an agreed upon due date for responses to be provided
- 7. Final Draft:** Following the exit conference, if agreed-upon revisions are to be made to the draft report, the report will be re-circulated to audit participants.

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- 8.** Responses to Recommendations: Responses to audit recommendations will be prepared by management and submitted to IA. In general, responses should state whether or not management agrees with the findings and recommendations. Responses should be specific as to what changes will be implemented and target completion dates for implementation should also be provided. The CEO will be advised of any significant findings and recommendations for which there is disagreement between management and Internal Audit concerning fact, finding, or recommendation.
- 9.** Report Distribution: Responses to audit recommendations will be incorporated into the final draft report and the audit report will be issued to all audit participants.
- 10.** The Executive Director of IA will prepare and circulate a draft staff report to the CEO, indicating the date the audit report will be included on the Finance and Administration Committee agenda.

**C. Follow-Up Audits and Ad-hoc Audit Requests**

Follow-up audits generally conducted six months after the issuance of an audit report, and every six months thereafter until all recommendations have been satisfactorily addressed, will include a notification memorandum and periodic closeout memorandums addressed to management.

From time to time, management or the Board may request ad-hoc audits or reviews of projects, programs, or activities. The type and scope of these reviews will be agreed to by management and/or directed by the Board, as applicable.

**D. Fraud, Illegal Acts, Violations of Provisions of Contracts or Grant Agreements, Waste, or Abuse Investigations**

Government Auditing Standards prescribe internal auditors' responsibilities for considering fraud, illegal acts, violations of provisions of contracts or grant agreements, waste, or abuse during their planning for, and execution of, audits. The IA Department will conduct investigations of all identified or alleged instances of fraud, illegal acts, violations, waste or abuse, and document the disposition in audit workpaper files. Where IA concludes, based on sufficient, appropriate evidence, that fraud, illegal acts, significant violations of provisions of contracts or grant agreements, or significant abuse either has occurred or is likely to have occurred, the matter(s) will be reported to management, CEO, and/or the Board, as appropriate, for suitable action.

The IA Department will be responsible for managing OCTA's Fraud Hotline. All reported instances of fraud, illegal acts, violations of provisions of contracts or grant agreements, waste, or abuse will be investigated and disposition documented in the Ethicspoint system and hard copy files maintained by IA. IA will communicate results of these investigations to management, the CEO, and/or the Board as appropriate under the circumstances.

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**E. Independence and Record Access**

As a means of ensuring independence, the IA Department will report to the CEO and the Board. IA shall have full, free, and unrestricted access to all operations, records, property, and personnel within OCTA.

All employees will cooperate fully in making available material or information requested by an internal auditor.

The IA Department shall have no authority over, or responsibility for, any of the activities audited, and shall not perform any functions that might require subsequent audit.

The Board has authorized the IA Department to perform, or sanction others to perform, internal audits within OCTA. Therefore, only personnel within the IA Department should be referred to as internal auditors and only their work should be referred to as internal audit activities. OCTA employees performing work involving review and verification of various aspects of OCTA operations should not be referred to as auditors and their work should not be referred to as audits or audit activities.

All external audits of OCTA will be coordinated through or with the Executive Director of IA, including audits conducted by state, federal, or local officials. From time to time, the IA Department will retain the services of audit consultants to supplement internal audit staff and assist with internal audits and reviews. Audit consultants will be selected using OCTA's approved procurement process and will comply with this policy.

The Contracts Administration and Materials Management Department will ensure that provision is made in all contracts and agreements for examinations by IA of the counterparty's books and records relating to such contracts and agreements.

**VI. EXCEPTIONS**

OCTA reserves the right to change this policy at any time without prior notice. OCTA has the authority to make exceptions to this policy as required by business needs. Any exceptions must be authorized by the CEO. In the event that any changes are made, the revised policy will be posted on OCTA Today.

**VII. PROVISIONS AND CONDITIONS**

Not applicable.

**VIII. RELATED DOCUMENTS**

Not applicable.

**END OF POLICY**