



# 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 through December 2009



## Association of Local Government Auditors

February 5, 2010

Ms. Kathleen M. O'Connell, Executive Director  
Orange County Transportation Authority  
Internal Audit Department  
600 S. Main Street – 12<sup>th</sup> Floor  
Orange, California 92863

Dear Ms. O'Connell

We have completed a peer review of the Orange County Transportation Authority Internal Audit Department for the period January through December 2009. 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 if 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. 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 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 through December 2009.

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

Allen Leatherwood, CPA, CIA  
Team Leader  
Central New Mexico Community College

Edwin Young, CIA, CFE, CGFM  
Team Member  
City of Palo Alto, CA



## Association of Local Government Auditors

February 5, 2010

Ms. Kathleen M. O'Connell, Executive Director  
Orange County Transportation Authority  
Internal Audit Department  
600 S. Main Street – 12<sup>th</sup> Floor  
Orange, California 92863

Dear Ms. O'Connell

We have completed a peer review of the Orange County Transportation Authority (OCTA) Internal Audit Department for the period January through December 2009 and issued our report thereon dated February 5, 2010. 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 Audit function excels:

- The Internal Audit Department adds value to the organization by providing rapid turn-around to organizational requests for Price Reviews and Buy America Reviews.
- Internal audit staff has professional expertise in sophisticated technical areas and is very productive.
- The role of the Finance and Administration Committee promotes independence of the Audit function and the Committee is both supportive and engaged.

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

**Classification of Audit Services.** GAS 3.20 through 3.30 address issues related to performing professional (non-audit) services to an organization. These types of services augment the value an internal audit function can bring to an organization.

During our review we noted that certain services provided at the request of OCTA's Contracts and Materials Management Department (CMM) could be considered non-audit services. GAS Standards were followed for OCTA's Internal Audit Price Reviews however, classification of these services as GAS attestation audits creates additional work due to strict requirements of *Governmental Auditing Standards*.



Suggestion: OCTA's Internal Audit Department should investigate whether services provided to OCTA's Contracts and Materials Management Department could be classified as non-audit services.

Use of Checklists: The Department did not implement Quality Control Checklists until July 2009, representing half of the period under review. In addition, the Checklist is not adequately tailored to address price review engagements.

Suggestion: OCTA's Internal Audit Department should continue to utilize the Quality Control Checklist for audit work; however, in order to enhance controls, should consider developing a Quality Control Checklist specific to price review work.

Development Worksheets: *Government Auditing Standards* require the development of certain elements in an audit finding. These elements are: condition, criteria, cause, effect, and recommendation. Our review of a performance audit required reading the entire report and the supporting workpapers to clearly identify these elements.

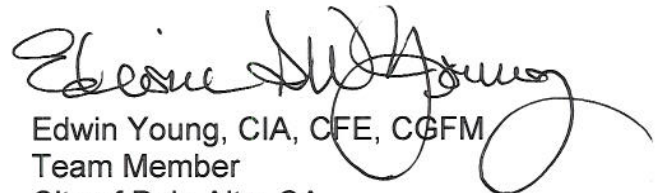
Suggestion: OCTA Internal Audit should prepare formal development finding worksheets that clearly identify each of the elements of a finding as prescribed in *Government Auditing Standards* which would facilitate supervisory review, quality control, and report writing.

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

Sincerely,



Allen Underwood, CPA, CIA  
Team Leader  
Central New Mexico Community College



Edwin Young, CIA, CFE, CGFM  
Team Member  
City of Palo Alto, CA



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February 5, 2010

Allen Leatherwood, CPA  
Central New Mexico Community College  
Albuquerque, New Mexico

Edwin S. W. Young  
Office of the City Auditor, City of Palo Alto  
Palo Alto, California

Dear Mssrs. Leatherwood and Young:

I have reviewed your report dated February 4, 2010, containing the results of your External 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). As this was the first such review of the Department, it was reassuring to learn that you have concluded that the Department conducts its audit work in accordance with *Government Auditing Standard* (GAS). In addition, I appreciate your recognition of some of the positive accomplishments you found during your review.

While an opinion on the Department's compliance is important, it is also important to identify ways in which to improve operations. In your management letter, you have offered recommendations intended to help the Department enhance compliance with the Standards. Following are my responses to your suggestions.

**Suggestion 1: Investigate Classification of Price Reviews and Buy America Reviews**

The Department agrees with the recommendation and will investigate the appropriate classification of the Department's work with respect to pre-award price reviews and Buy America reviews. In conducting the investigation, we will contact the Government Accountability Office (GAO) for guidance.



This classification matter has been the subject of many healthy debates in our Department over the year as we attempted to comply with GAs while recognizing the unique features of this work that make strict GAO compliance inefficient. For example, GAS require audit planning, yet such a procedure is not applicable to price reviews because they are performed using routine procedures suggested by Federal Acquisition Regulations. To plan a price review would be an inefficient exercise. Despite the inapplicability of some standards, we have leaned towards the classification of price reviews and Buy America reviews as "audit services" because we believe that this work is of such vital importance in the government contracting process that it should be subjected to the same sort of rigorous peer review scrutiny as other financial and performance audits.

**Suggestion 2: Develop a Quality Control Checklist**

The Department agrees with this recommendation and will implement new quality control checklists by June 30, 2010. Since June 2009, the Department has been using ALGA's quality control checklist as the method by which we ensure consistent compliance with the Standards. We recognize, however, that this checklist is neither tailored to the unique policies or procedures of the Department, nor comprehensive in its consideration of all GAS. As such, we will develop a more detailed and thorough checklist of all required workpaper elements to ensure consistent compliance.

**SUGGESTION 3: Develop a Worksheet to Identify Condition, Criteria, Cause, Effect and Recommendation for Each Audit Finding**

The Department agrees with this recommendation. While we believe the required elements of audit findings are identified in our workpapers and audit reports, we recognize that they are not clearly labeled. Labeling the elements would both enable peer reviewers to identify them easily, as well as serve as a training tool for less experienced auditors as they gain experience drafting audit reports that include these elements. Rather than develop a checklist, however, we will use the Department's recently implemented software package and create tabs in the "Findings" module for each of the elements. We will amend our policies and procedures accordingly. We expect to complete these modifications by June 30, 2010.

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Staff in the Internal Audit Department found the ALGA External Peer Review to be a very valuable and constructive process. We very much appreciate 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 audit organizations.

Sincerely,

A handwritten signature in dark ink, reading "Kathleen M. O'Connell". The signature is fluid and cursive, with the first name "Kathleen" and last name "O'Connell" clearly legible.

Kathleen M. O'Connell, CPA  
Executive Director, Internal Audit