



*January 13, 2021*

**To:** Finance and Administration Committee

**From:** Darrell E. Johnson, Chief Executive Officer   
Janet Sutter, Executive Director   
Internal Audit Department

**Subject:** Fiscal Year 2020-21 Internal Audit Plan, Second Quarter Update

**Overview**

The Orange County Transportation Authority Board of Directors adopted the Orange County Transportation Authority Internal Audit Department Fiscal Year 2020-21 Internal Audit Plan on July 27, 2020. This report provides an update of activities for the second quarter of the fiscal year.

**Recommendation**

Receive and file the second quarter update to the Orange County Transportation Authority Internal Audit Department Fiscal Year 2020-21 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 Fiscal Year (FY) 2020-21 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project.

During the second quarter of the FY, Internal Audit issued results of an audit of employee separations. Based on the audit, internal controls related to employee separations have been established, and controls to ensure accurate final payroll processing are adequate. However, Internal Audit offered three recommendations to improve the employee off-boarding process, to ensure more consistent quarterly stale account reviews, and to improve documentation and communication of employee exit survey results. Management agreed with the recommendations and indicated that corrective actions will be taken.

Internal Audit also issued results of banking services and the agreement with Bank of the West. Based on the audit, controls, policies, and procedures over banking activities are generally adequate and operating, and Bank of the West operates in compliance with the agreement. Internal Audit offered two recommendations to further enhance controls related to bank-authorized signers and bank statement analyses. Management agreed and indicated that procedures would be developed to enhance controls.

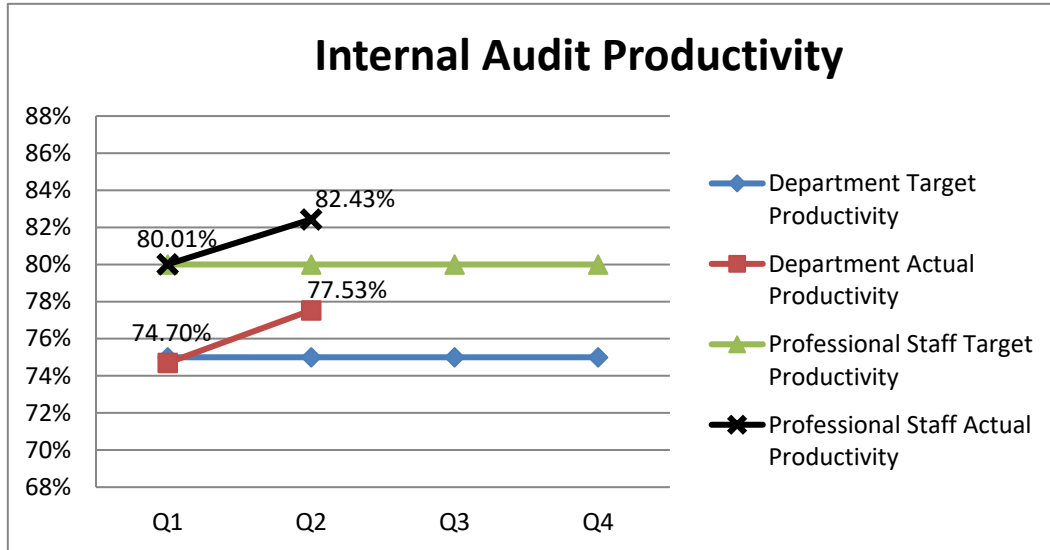
The primary focus of Internal Audit during the quarter was to provide coordination and assistance related to the annual financial audits and agreed-upon procedure reviews conducted by OCTA's independent financial statement auditor, Crowe LLP (Crowe). All audits and agreed-upon procedures reviews, except those related to individual cities and the County of Orange, were issued. In connection with the audits, Crowe made five recommendations to management for improvement to internal controls. Management agreed with the recommendations and outlined actions to address the issues.

The Department of Finance, Office of State Audits and Examinations, continued work on the audit of four Proposition 1B-funded projects. Internal Audit will continue to provide assistance and coordination of the audit, and will report results when received.

#### 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 second quarter ended December 31, 2020, Internal Audit achieved productivity of 77.5 percent, and the professional staff achieved productivity of 82 percent.



### Price Reviews

At the request of the Contracts Administration and Materials Management (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 lists adjustments to rates where the proposed rates exceed rates calculated during the review. During the second quarter, Internal Audit issued results of six price reviews.

### Fraud Hotline

During the quarter ended December 31, 2020, Internal Audit received three reports through OCTA's Fraud Hotline, [www.ethicspoint.com](http://www.ethicspoint.com). Based on the nature of the complaints, two reports were referred to Customer Service, and one was referred to Human Resources and Organizational Development. As part of the administration of the hotline, Internal Audit maintains documentation of each complaint and its disposition.

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Internal Audit is committed to responding to all hotline complaints within eight business days. During the quarter ended December 31, 2020, 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 as 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 December 31, 2020, Internal Audit completed follow-up reviews of four outstanding audit recommendations and concluded that management had taken appropriate corrective actions (Attachment C). The follow-up review of one recommendation is in process as of the end of the quarter. Five recommendations were added as a result of audits issued during the second quarter, and one item was added related to recommendations made by OCTA's independent financial statement auditor in connection with their audit of OCTA's financial statements.

#### **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 2020-21 Internal Audit Plan, Second Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through December 31, 2020
- C. Audit Recommendations Closed During Second Quarter, Fiscal Year 2020-21

#### **Prepared by:**



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**Orange County Transportation Authority  
Fiscal Year 2020-21 Internal Audit Plan  
Second Quarter Update**

Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
<b>Mandatory External Independent Audits</b>							
Annual Financial Audits and Agreed-Upon (AUP) Procedures Reviews	FY21-001 through FY21-004	Coordinate and report on annual financial and AUP reviews for fiscal year 2019-20.	Financial	450	210	240	In Process
External Regulatory Audits	FY21-005	Coordinate and report on external audits by regulatory or funding agencies.	Compliance	60	38	22	In Process
<b>Internal Audit Department Projects</b>							
Risk Assessment and Annual Audit Plan	FY21-100	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	57	123	
Quality Assurance and Self-Assessment	FY21-101	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	160	21.5	139	
Fraud Hotline Activities	FY21-102	Administrative duties related to maintenance of the Fraud Hotline and work related to investigations of reports of fraud, waste, or abuse.	Fraud Hotline	240	30	210	5 Reports
Automated Workpaper Solution	FY21-103	System updates/training related to automated workpaper solution.	Workpaper System	40	7	33	
<b>Internal Audits</b>							
<b>Security and Emergency Preparedness</b>							
Physical Access Security	FY21-5XX	Review and test controls in place to ensure physical access security at Orange County Transportation Authority (OCTA) locations.	Internal Control / Operational	240		240	
<b>Clerk of the Board</b>							
Form 700 Disclosures	FY21-5XX	Review and test controls in place related to coordination of Form 700 disclosures by designated employees.	Compliance	240		240	

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<b>Human Resources and Organizational Development</b>							
Department of Motor Vehicles (DMV) Pull Notice Program	FY20-5XX	Assess controls and test operation of the DMV Pull Notice Program.	Internal Control/Operational	240		240	
Separations	FY21-501	Assess and test controls related to employee separations.	Operational	220	226.5	(7)	Complete 10-12-20
<b>Capital Programs</b>							
Interstate 5 (I-5) Project: State Route 55 (SR-55) to State Route 57 (SR-57)	FY20-510	Review of the I-5 Project: SR-55 to SR-57, including project administration, oversight controls, and contract compliance.	Internal Control / Compliance	60	57	3	Complete 7-29-20
OC Streetcar Project Management	FY21-503	Review of the OC Streetcar project management controls, including project administration, oversight controls, and contract compliance.	Internal Control / Compliance	320	337.5	(18)	In Process
<b>Planning</b>							
Comprehensive Transportation Funding Programs (CTFP): Oversight and Reporting	FY20-512	Review of OCTA monitoring and reporting controls over CTFP projects.	Internal Control	160	288.5	(129)	In Process
<b>Operations</b>							
Facilities Maintenance	FY21-507	Review of facilities maintenance function within Operations Division, including oversight controls and contract compliance.	Operational / Compliance	300	64	236	In Process
Bridgestone/Firestone Tire Lease and Services	FY21-506	Evaluate and test oversight controls and contract compliance related to the agreement with Bridgestone/Firestone for lease of tires and related services.	Internal Controls / Compliance	240	101.5	139	In Process
<b>Finance and Accounting</b>							
Treasury	FY21-502	Semi-annual review of investments: compliance, controls, and reporting.	Compliance	200	120	80	1 Report Issued
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.	Compliance	100	192.5	(93)	Complete 10-21-20

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Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
<b>Contract Administration and Materials Management (CAMM)</b>							
Price Reviews	PR21-XXX	As requested by the CAMM Department, apply AUP to sole source, single bid, and architectural and engineering firm proposals.	Price Review	800	656.5	144	16 Reports Issued
Buy America	PR21-XXX	As requested by the CAMM Department, apply AUP to determine compliance with Buy America requirements.	Buy America	180	122	58	2 Reports Issued
<b>Unscheduled Reviews and Special Requests</b>							
Unscheduled Reviews and Special Requests	FY21-800	Time allowed for unplanned audits and requests from the Board of Directors (Board) or management.	Varies	240	68	172	
<b>Monitoring Activities</b>							
Measure M Taxpayer Oversight Committee (TOC)	FY21-601	Coordination of audit activities on behalf of the Audit Subcommittee of the TOC.	Administrative Support	60	9	51	
Metrolink Audit Activities	FY21-602	Obtain and review audit results of Metrolink activities	Non-Audit Service	20	47	(27)	
Capital Asset Inventory Observation	FY20-603	At the request of the Finance and Administration Department, observe and apply limited procedures related to the bi-annual capital asset inventory counts.	Non-Audit Service	80	86	(6)	Complete
Bus Base Inspections	FY20-604	At the request of the Transit Division, participation on annual base inspection teams.	Non-Audit Service	40	23	17	Complete
<b>Follow-Up Reviews</b>							
Follow-Up Reviews and Reporting	FY21-700	Follow-up on the status of management's implementation of audit recommendations.	Follow-Up	280	63	217	
<b>Total Audit Project Planned Hours (A)</b>				<b>5,150</b>	<b>2,826</b>	<b>2,325</b>	

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Audit Activity	Project Number	Description	Primary Audit Type	Planned Staff Hours	Staff Hours To Date	Under (Over)	Status (Date Issued)
<b>Internal Audit Administration</b>							
Board and Committee Meetings				180	74	106	
Executive Steering and Agenda Setting Meetings				180	69	111	
Internal Audit Staff Meetings				150	56.5	94	
Other Administration				1,250	659	591	
<b>Total Hours (B)</b>				<b>6,910</b>	<b>3,684</b>	<b>3,226</b>	
<b>Department Target Efficiency (A/B)</b>				75%	<b>78%</b>		75%
<b>Target Efficiency - Professional Staff</b>				80%	<b>82%</b>		80%



**Outstanding Audit Recommendations  
Audit Reports Issued through December 31, 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	<p>The Internal Audit Department (Internal Audit) recommends that prime and sub-consultants be required to have an adequate labor timekeeping system.</p> <p>Management should remind consultants of the need to request amendments to add staff, labor rates, and other direct costs in a timely fashion.</p>	Nov-20	<p>Capital Programs will work with the Contracts Administration and Materials Management (CAMP) 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.</p> <p>During project kick-off meetings after contract execution and in on-going meetings with the project managers, CAMP staff will emphasize the need for timely submission of requests for amendments.</p>	<p><b>Update June 2020:</b> CAMP 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. CAMP 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 CAMP's determination of the appropriate action. <b>Update December 2020:</b> Follow-up review in process.</p>
2/18/20	20-501	F&A	Patch Management Program (PMP)	<p>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.</p>	Feb-21	<p>Management agreed with the recommendations and indicated that progress has been made, and efforts will continue to implement these improvements.</p>	<p><b>Update September 2020:</b> Management is in the process of implementing the recommendations, and expects all five recommendations to be completed no later than January 2021. The recommendations will remain open until fully implemented.</p>
7/29/20	20-510	Capital Programs	I-5 Project: SR-55 to SR-57	<p>Internal Audit recommends that management add a step on reviewing labor rate escalation in its invoice review checklist. Internal Audit also recommends that management require cost documentation for other direct costs invoiced and request the consultant to bill all first-tier sub-consultants based on their contract rate schedules.</p>	Jan-21	<p>Management agrees with the recommendation, and items noted in the recommendation are currently being implemented. The invoice review checklist has been revised to add an additional step to include labor rate escalation review. Invoiced labor rate escalation is currently being reviewed. Management will be seeking recovery of the \$1,903 in over-billings due to the incorrect application of the contract's 2.5 percent annual labor escalation factor. Management had previously identified the first-tier subconsultant billing issue, and this was corrected with the consultant's April 2020 invoice. There was no increased cost to OCTA based on the previous sub-consultant billings.</p>	

**Outstanding Audit Recommendations  
Audit Reports Issued through December 31, 2020**

<b>Audit Issue Date</b>	<b>Report Number</b>	<b>Division/ Department/ Agency</b>	<b>Audit Name</b>	<b>Recommendation</b>	<b>Initiate Next Update</b>	<b>Management Response and Status</b>	<b>Internal Audit Status</b>
10/12/20	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.	Apr-21	Management responded that they would work with other departments to resume efforts to convert the employee exit processing form into an electronic form.	
10/12/20	21-501	HROD	Employee Separations	Internal Audit recommended that stale account reviews be performed quarterly to ensure that accounts associated with separated employees have been disabled or deleted.	Apr-20	Management agreed to perform these reviews timely and also noted that they are working to make the process more efficient.	
10/12/20	21-501	HROD	Employee Separations	Internal Audit recommended that invitations to participate in employee exit surveys be documented and that a procedure be developed to analyze and communicate exit survey results to management.	Apr-20	Management agreed, noting that written procedures will be developed to cover the employee exit survey process and communication of the results.	
10/21/20	21-507	F&A	Audit of Banking Services and Agreement with Bank of the West (BofW)	Internal Audit recommended that management develop procedures to document the monthly and annual review processes for the BofW statements and fees.	Apr-20	Management agreed and stated they would develop a procedure to document the monthly and annual review processes and include evidence of any investigations conducted.	
10/21/20	21-507	F&A	Audit of Banking Services and Agreement with BofW	Internal Audit recommended that management implement a procedure to ensure timely updates to the BofW signature card and explore options to further enhance the control environment related to cash withdrawals by authorized personnel.	Apr-20	Management agreed and indicated they would develop a procedure to ensure timely update of the BofW signature card and would work with BofW to implement tools to further enhance controls over cash withdrawals, if available.	
11/16/20	Not Applicable	F&A	Fiscal Year 2019-20 Management Letter	In connection with the audit of OCTA's 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-20	Management agreed with the recommendations and indicated that corrective actions will be taken.	

**Audit Recommendations Closed During  
Second Quarter, Fiscal Year 2020-21**

<b>Audit Issue Date</b>	<b>Report Number</b>	<b>Division/ Department/ Agency</b>	<b>Audit Name</b>	<b>Recommendation</b>	<b>Internal Audit Status Comments</b>
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.	Management has revised practices to ensure contracts are combined and/or issued for longer periods for recurring services. Management has also issued an updated Project Management Manual that addresses procurement requirements and has conducted staff training.
12/6/19	19-513	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.	A Project Controls function has been implemented and management has updated the Project Management Manual. Training, including guidance related to project manager responsibilities for contract management and invoice review has been conducted.
12/7/19	19-514	External Affairs	Bus Marketing	Internal Audit recommends written procedures be reviewed with project managers, and management requires documented compliance with requirements. Documentation should include the source and support of stated evaluation criteria and related results.	Management has updated the Project Management Manual and provided staff training. The manual addresses documentation of marketing efforts and results.
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.	Management has incorporated manufacturer-recommended tasks or has documented decisions to deviate from the manufacturer guidelines.