



March 9, 2016

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Orange County Transportation Authority Internal Audit
Department Peer Review

Overview

An external quality assurance, or peer, review has been completed of the Internal Audit Department of the Orange County Transportation Authority. The peer review found that the Internal Audit Department's quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with Government Auditing Standards for the period January 1, 2013 through December 31, 2015. The peer review team also provided a management letter with one suggestion to further strengthen the internal quality control system.

Recommendation

Direct the Internal Audit Department to implement the suggestion provided by the Association of Local Government Auditors in a letter dated February 18, 2016.

Background

Government Auditing Standards (GAGAS), issued by the United States Government Accountability Office, set professional standards for the performance of government audits. One of the GAGAS standards is that audit departments undergo an external quality assurance, or peer, review once every three years. Internal audit departments may either engage an independent audit firm to have the peer review performed, or participate in a peer review program of a recognized professional association.

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) sought the assistance of the Association of Local Government Auditors (ALGA) to perform the peer review. ALGA's peer review program is well developed and is rotational in nature. By volunteering 80 hours of service on peer review teams during 2016, Internal Audit received this reciprocal peer review at minimal cost to OCTA.

The peer review was performed during the week of February 15, 2016.

Discussion

The peer review process began approximately one month prior to the site visit. Internal Audit worked with an ALGA peer review coordinator to schedule the review. The coordinator solicited volunteers nationally and evaluated those volunteers' independence with regard to OCTA and Internal Audit personnel. The peer review team assembled for OCTA's peer review included an auditor from the Allegheny County Controller's Office and another from the Hillsborough County Aviation Authority.

Prior to the site visit, the peer review team was provided with Internal Audit's policies and procedures manual, organizational chart and staff information, OCTA background information, an inventory of all audits completed during the three year period, and a description of Internal Audit's quality control system.

Once on site, the peer review team conducted interviews of staff, reviewed audit workpapers, reports, quarterly audit plan updates, and other documents produced by Internal Audit. The peer review team also evaluated Internal Audit's independence and reviewed training records and personnel evaluations.

The peer review team concluded that Internal Audit's quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with GAGAS for the period January 1, 2013 through December 31, 2015. The report on compliance with GAGAS can be found at Attachment A.

In addition to issuing its report on compliance with GAGAS, the peer review team provided Internal Audit with a management letter (Attachment B). The peer review team recognized Internal Audit for its comprehensive and well-designed policies and procedures and its highly skilled and productive audit staff members. Also, the team recognized the office for contributing to an organizational culture that respects and supports the work of Internal Audit.

The peer review team also provided one observation and recommendation related to the use of the word “review” in audit and agreed-upon procedures reports. Since “review” refers to a separate and distinct type of engagement, the peer review team suggested that the use of this term may confuse some readers of the reports. The peer review team recommended that Internal Audit characterize engagements as performance audits or agreed-upon procedures engagements and not as “reviews”. Internal Audit agreed to make this recommended change in all future reports. Internal Audit’s complete response to the external quality assurance review can be found at Attachment C.

Summary

A peer review has been completed of the Internal Audit Department. The peer review found that Internal Audit’s quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with GAGAS for the period January 1, 2013 through December 31, 2015. The peer review team provided one suggestion to further strengthen the internal quality control system.

Attachments

- A. External Quality Control Review of the Orange County Transportation Authority Internal Audit Department
- B. Letter from Jeffrey N. Vargas, CPA, CGMA and Felicia Carlee, CPA, CIA, CISA, CGAP, to Janet Sutter, Executive Director, dated February 18, 2016
- C. Letter to ALGA Peer Review Team Leader, Jeffery N. Vargas, Audit Manager, from Janet E. Sutter, Executive Director, dated February 18, 2016

Approved by:



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



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 1, 2013 through
December 31, 2015



Association of Local Government Auditors

February 18, 2016

Ms. Janet Sutter
Executive Director
Orange County Transportation Authority
Internal Audit Department
550 South Main St.
Orange, CA 92868

Dear Ms. Sutter,

We have completed a peer review of the Orange County Transportation Authority Internal Audit Department for the period from January 1, 2013 through December 31, 2015. 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 whether 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. Our procedures included:

- Reviewing the audit organization's written policies and procedures.
- Reviewing internal monitoring procedures.
- Reviewing a sample of audit and attestation engagements and working papers.
- Reviewing documents related to independence, training, and development of auditing staff.
- Interviewing auditing staff and management to assess their understanding of, and compliance with, relevant quality control policies and procedures.

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's 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 from January 1, 2013 through December 31, 2015.

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

Jeffrey N. Vargas, CPA, CGMA
Allegheny County Controller's Office
Pittsburgh, PA

Felicia Carlee, CPA, CIA, CISA, CGAP
Hillsborough County Aviation Authority
Tampa, FL



Association of Local Government Auditors

February 18, 2016

Ms. Janet Sutter
Executive Director
Orange County Transportation Authority
Internal Audit Department
550 South Main St.
Orange, CA 92868

Dear Ms. Sutter,

We have completed a peer review of the Orange County Transportation Authority Internal Audit Department for the period January 1, 2013 through December 31, 2015 and issued our report thereon dated February 18, 2016. 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 Department excels:

- Your Policies and Procedures Manual is comprehensive and well designed.
- The audit staff members are highly skilled and highly productive.
- The Internal Audit Department has contributed to a culture that respects and supports the audit function.

We offer the following observation and suggestion to enhance your organization's demonstrated adherence to Government Auditing Standards:

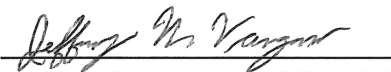
Observation: Standard 7.30 requires specific wording be used to indicate a performance audit was conducted in accordance with GAGAS. In addition, Standard 5.61 requires a statement in the agreed-upon procedures engagement report that indicates that the engagement was performed in accordance with GAGAS. During our review of issued performance audit reports, we noted that in some instances the term "review" was used in the required GAGAS compliance statement to describe the engagements rather than "audit", and in all instances the term "review" was also used to describe the engagement throughout the body of the reports. Also, in our review of issued reports for agreed-upon procedures engagements, we noted the term "review"

was used in the GAGAS compliance statement and throughout the body of the reports. A “review” is a separate and distinct type of engagement that can be performed under GAGAS that provides a level of assurance that differs from the assurance provided by performance audits and agreed-upon procedures engagements. Consequently, the use of the term “review” in performance audit and agreed-upon procedures reports may confuse some readers.

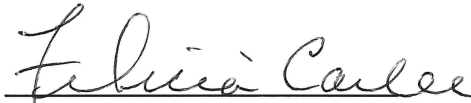
Suggestion: We recommend the GAGAS compliance statement from Standard 7.30 be used verbatim in reports for performance audits conducted in accordance with GAGAS. We further recommend that the GAGAS compliance statements used in agreed-upon procedures reports characterize the engagements as agreed-upon procedures engagements. We also recommend that you consider using the term “engagement” instead of the term “review” in your performance audit and agreed-upon procedures reports when otherwise referring to the engagement that was performed.

We extend our thanks to you and your staff we met for the hospitality and cooperation extended to us during our review.

Sincerely,



Jeffrey N. Vargas, CPA, CGMA
Allegheny County Controller's Office
Pittsburgh, PA



Felicia Carlee, CPA, CIA, CISA, CGAP
Hillsborough County Aviation Authority
Tampa, FL



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Darrell Johnson
Chief Executive Officer

February 18, 2016

ALGA Peer Review Team Leader
Jeffrey N. Vargas, Audit Manager
Allegheny County Controller's Office – Audit Division
436 Grant Street
Room 219 Courthouse
Pittsburgh, PA 15219

ALGA Peer Review Team Member
Felicia Carlee, Internal Audit Manager
Hillsborough County Aviation Authority
P. O. Box 22287
Tampa, FL 33622

Dear Mr. Vargas and Ms. Carlee:

I have reviewed your report dated February 18, 2016, containing the results of your 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). We are pleased that you found that our internal quality control system was suitably designed and operating effectively during the audit period January 1, 2013 through December 31, 2015.

We appreciate the review team's recognition of areas in which the Department excels and suggestions to enhance compliance with Government Auditing Standards (GAGAS). Following is my response to the suggestion.

Recommendation 1: We recommend that the GAGAS compliance statement from Standard 7.30 be used verbatim in reports for performance audits conducted in accordance with GAGAS. We further recommend that the GAGAS compliance statements used in agreed-upon procedures reports characterize the engagements as agreed-upon procedures engagements. We also recommend that you consider using the term "engagement" instead of the term "review" in your performance audit and agreed-upon procedures reports when otherwise referring to the engagement that was performed.

Mr. Vargas and Ms. Carlee
February 18, 2016
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The Department agrees and will use the compliance statement from Standard 7.30 verbatim in all future performance audits and will reference agreed-upon procedures as the engagement type in the compliance statements for those engagements. Finally, the Department agrees to use a term other than "review" in future reports to ensure clarity with regard to the type of engagement performed.

The Department finds the ALGA 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 organizations.

Sincerely,



Janet E. Sutter, Executive Director
Internal Audit

c: Mr. Todd Spitzer, Chairman, OCTA Finance and Administration Committee
Mr. Darrell Johnson, Chief Executive Officer
Ms. Paula Ward, ALGA Review Coordinator