



October 14, 2020

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, First 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 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 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 Internal Audit Department Fiscal Year (FY) 2020-21 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 oversight controls and contract compliance related to the Interstate 5 Project: State Route 55 to State Route 57. Internal Audit tested compliance with project management procedures and found evidence of management and oversight controls. In addition, procurements and amendments were handled in accordance with procurement policies and procedures, and contract deliverables were received. Internal Audit made one recommendation to improve review of the construction management consultant invoices. Management agreed with the recommendation and indicated that corrective actions are being implemented.

Internal Audit also issued results of the semi-annual audit of investments for the period January 1 through June 30, 2020. Based on the audit, OCTA complied with its debt, investment, and reporting policies and procedures.

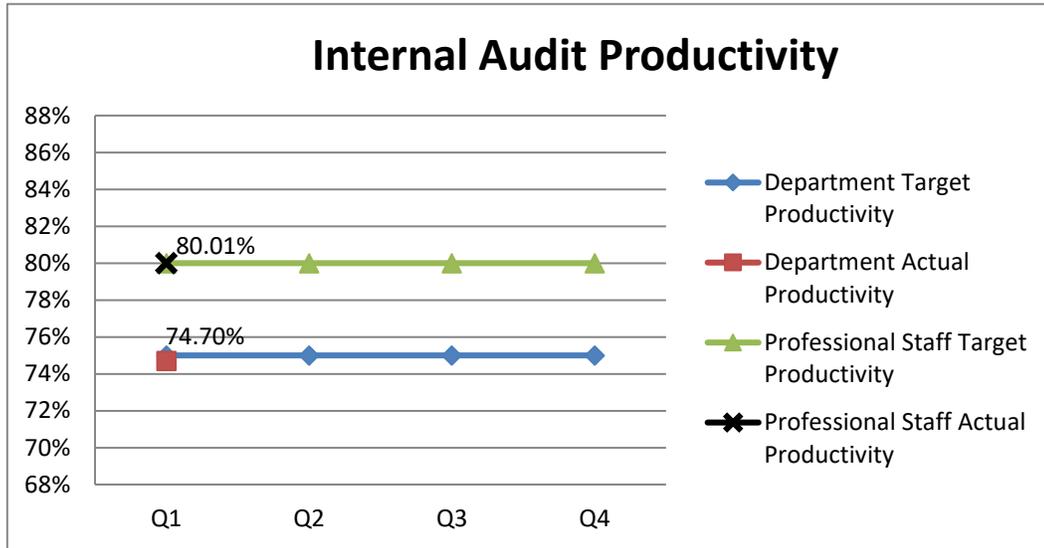
Also, during the quarter, OCTA was notified by the Department of Finance, Office of State Audits and Examinations, of their intention to audit four Proposition 1B-funded projects. Internal Audit is providing assistance and coordination of the audit and will report results once received.

The primary focus of Internal Audit as of September 30, 2020, 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, 2020, Internal Audit achieved productivity of 74.6 percent, and the professional staff achieved productivity of 80 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 makes recommendations to adjust proposed rates where they exceed the rates per review. During the first quarter, Internal Audit issued results of ten price reviews.

Fraud Hotline

During the quarter ended September 30, 2020, Internal Audit received two reports through OCTA’s Fraud Hotline, www.ethicspoint.com. Based on the nature of the complaints, both were referred to Customer Service. 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, 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 September 30, 2020, Internal Audit completed follow-up reviews of ten outstanding audit recommendations and closed one (Attachment C). In addition, one recommendation was 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 2020-21 Internal Audit Plan, First Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued Through September 30, 2020
- C. Audit Recommendations Closed During First Quarter, Fiscal Year 2020-21

Prepared by:



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**Orange County Transportation Authority
Fiscal Year 2020-21 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	FY21-001 through FY21-004	Coordinate and report on annual financial and AUP reviews for fiscal year 2019-20.	Financial	450	67	383	In Process
External Regulatory Audits	FY21-005	Coordinate and report on external audits by regulatory or funding agencies.	Compliance	60	33	27	In Process
Internal Audit Department Projects							
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	41	139	
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	15	145	
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	26	214	2 Reports
Automated Workpaper Solution	FY21-103	System updates/training related to automated workpaper solution.	Workpaper System	40	3	37	
Internal Audits							
Security and Emergency Preparedness							
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	
Clerk of the Board							
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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Human Resources and Organizational Development							
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	217	3	In Process
Capital Programs							
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	46	274	In Process
Planning							
Comprehensive Transportation Funding Programs (CTFP): Oversight and Reporting	FY20-512	Review of OCTA monitoring and reporting controls over CTFP projects.	Internal Control	160	90	70	In Process
Operations							
Facilities Maintenance	FY21-5XX	Review of facilities maintenance function within Operations Division, including oversight controls and contract compliance.	Operational / Compliance	300		300	
Bridgestone/Firestone Tire Lease and Services	FY21-5XX	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		240	
Finance and Accounting							
Treasury	FY21-5XX	Semi-annual review of investments: compliance, controls, and reporting.	Compliance	200	120	80	
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	169	(69)	In Process

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Fiscal Year 2020-21 Internal Audit Plan
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Contract Administration and Materials Management (CAMM)							
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	343.5	457	10 Reports Issued
Buy America	PR21-XXX	As requested by the CAMM Department, apply AUP to determine compliance with Buy America requirements.	Buy America	180		180	
Unscheduled Reviews and Special Requests							
Unscheduled Reviews and Special Requests	FY21-800	Time allowed for unplanned audits and requests from the Board of Directors (Board) or management.	Varies	240	10	230	
Monitoring Activities							
Measure M Taxpayer Oversight Committee (TOC)	FY21-601	Coordination of audit activities on behalf of the Audit Subcommittee of the TOC.	Administrative Support	60	8	52	
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	85	(5)	In Process
Bus Base Inspections	FY20-604	At the request of the Transit Division, participation on annual base inspection teams.	Non-Audit Service	40	21	19	
Follow-Up Reviews							
Follow-Up Reviews and Reporting	FY21-700	Follow-up on the status of management's implementation of audit recommendations.	Follow-Up	280	26	254	
Total Audit Project Planned Hours (A)				5,150	1,425	3,726	

**Orange County Transportation Authority
Fiscal Year 2020-21 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)
Internal Audit Administration							
Board and Committee Meetings				180	37	143	
Executive Steering and Agenda Setting Meetings				180	37	143	
Internal Audit Staff Meetings				150	27.5	123	
Other Administration				1,250	389.5	861	
Total Hours (B)				6,910	1,916	4,995	
Department Target Efficiency (A/B)				75%	75%		75%
Target Efficiency - Professional Staff				80%	80%		80%

**Outstanding Audit Recommendations
Audit Reports Issued Through September 30, 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>	Oct-20	<p>Capital Programs will work with the Contracts Administration and Materials Management (CAMM) 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, CAMM staff will emphasize the need for timely submission of requests for amendments.</p>	<p>Update June 2020: CAMM 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. CAMM 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 CAMM's determination of the appropriate action.</p>
12/5/19	19-512	External Affairs	Bus Marketing	<p>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.</p>	Dec-20	<p>Management concurs and has begun to implement practices to have longer terms and consolidate future contracts for similar services to support Bus Marketing needs. External consulting expertise will be procured to provide project management training. Management has also implemented a requisition process with added controls that will ensure procurements are not being designed to fall under approval thresholds.</p>	<p>Update June 2020: Management has revised practices to ensure contracts are combined and/or issued for longer periods for recurring services. Management's development of a manual and training program is still in process. The recommendation will remain open pending completion of the manual and related training program.</p>
12/5/19	19-512	External Affairs	Bus Marketing	<p>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.</p>	Dec-20	<p>Management has implemented a program controls function for all marketing and customer engagement contracts. This new function will ensure thorough and accurate reviews, approvals, and payments of contract invoices. Additionally, training will be provided.</p>	<p>Update June 2020: A Project Controls function has been implemented. Management's development of a manual and training program is still in process. The recommendation will remain open pending completion of the manual and related training program.</p>

Outstanding Audit Recommendations
Audit Reports Issued Through September 30, 2020

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response and Status	Internal Audit Status
12/5/19	19-512	External Affairs	Bus Marketing	Internal Audit recommends written procedures be reviewed with project managers, and management require documented compliance with requirements. Documentation should include the source and support of stated evaluation criteria and related results.	Dec-20	Management will evaluate and update the current processes and procedures manual to reflect current needs and work environment to include the source and support of stated evaluation criteria and related results. It is expected that the new processes, procedures, and training will be completed by the end of December 2020.	Update June 2020: Management's development of a manual and training program is still in process. The recommendation will remain open pending completion of the manual and related training program.
2/18/20	20-501	F&A	Patch Management Program (PMP)	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.	Feb-21	Management agreed with the recommendations and indicated that progress has been made, and efforts will continue to implement these improvements.	Update September 2020: 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 recommended.
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.	Nov-20	Maintenance concurs with the recommendation to incorporate these tasks into the work order templates or document variances from the manufacturer recommendation with justification. Maintenance will apply the recommended solution to the items outlined in the audit within the next six months and adopt this procedure for all subsequent deviations going forward.	

**Outstanding Audit Recommendations
Audit Reports Issued Through September 30, 2020**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response and Status	Internal Audit Status
7/29/20	20-510	Capital Programs	I-5 Project: SR-55 to SR-57	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.	Jan-21	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 the OCTA based on the previous sub-consultant billings.	

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

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Internal Audit Status Comments
1/8/20	20-503	Finance and Administration	Same-Day Taxi Service	For future procurements, Internal Audit recommended that management assess the likelihood of competition. Internal Audit also recommended that management ensure compliance with policy and procedures (P&P) or revise the P&P accordingly.	Management updated the procedures to require that single-proposal procurements follow the same procedures as competitive procurements. Management also expressed a commitment to conduct an industry workshop with potential providers to assess the likelihood of competition for the next procurement.