



**July 28, 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, Fourth 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 update is for the fourth quarter of the fiscal year.

### **Recommendation**

Receive and file the fourth 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, and agreed-upon procedures reviews. Audits initiated by entities outside of OCTA are coordinated through Internal Audit.

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***Discussion***

The OCTA Internal Audit Fiscal Year (FY) 2020-21 Internal Audit Plan (Plan), Attachment A, reflects the status of each audit project as of year-end. Staff hours, as reflected in Attachment A, represent total hours available annually for audit activities and are budgeted by project as a preliminary estimate of the effort required to meet the audit objective. Actual hours available for audit activities exceeded budgeted hours by approximately 600 hours due primarily to a decrease in the amount of vacation, sick, and training hours taken by staff during the year.

For the Plan year, Internal Audit completed 44 projects, including 32 price reviews, nine internal audits, one unscheduled agreed-upon procedures review, and two Buy America reviews. As reflected in the Plan, time spent on price reviews was under-estimated, resulting in an overage of approximately 500 hours. As of June 30, 2021, two internal audits are in progress, and one audit has been completed with a draft report in circulation. These audit projects will be carried over to the FY 2021-22 Plan.

During the fourth quarter, Internal Audit issued results of an audit of oversight controls and contract compliance related to the Bridgestone American Tire Operations, LLC (Bridgestone), tire lease and services agreement. Based on the review, the procurement of tire lease and services was handled in accordance with OCTA procurement policies and procedures, and payments are properly reviewed and authorized by staff. However, Bridgestone had not provided minimum staffing levels required by the contract, did not provide documents required to be submitted upon contract award, and was unable to provide certain required documents upon request. Additionally, contract requirements for torque re-check of new tires installed on ACCESS buses had not been implemented. OCTA management had also not implemented monitoring controls to ensure contract compliance. Management agreed and took immediate action to address contract compliance issues and indicated that controls will be implemented to monitor compliance going forward.

An audit of investments for the period July 1 through December 31, 2020, found that OCTA complied with its debt, investment, and reporting policies and procedures; however, one recommendation was made that management reconsider a change in reporting practices to add certain assertions. Management agreed and indicated that recommended assertions would be included in the reports starting in April 2021.

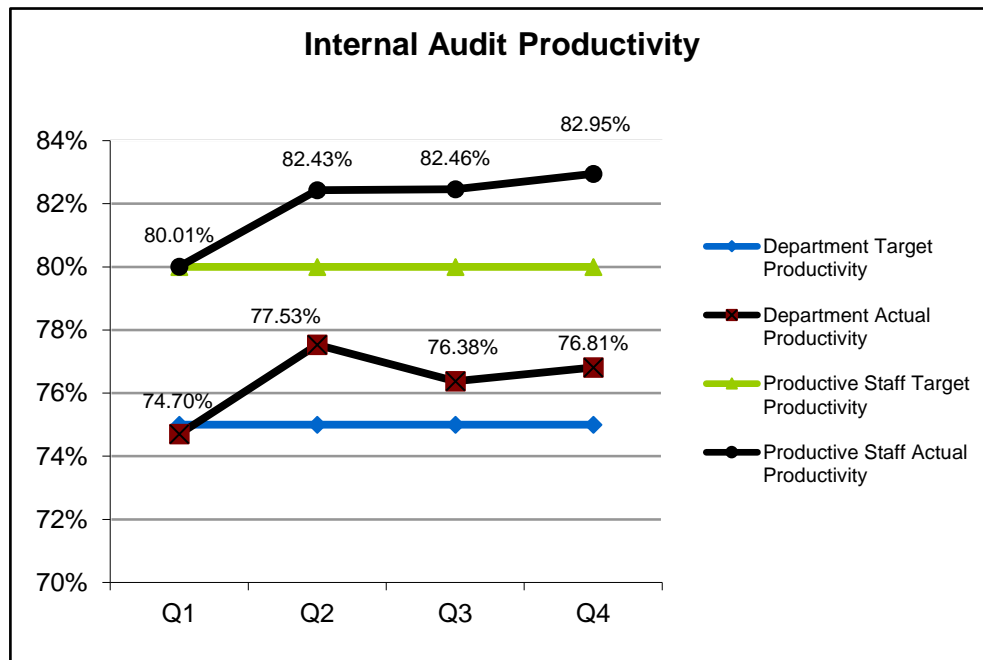
Also, during the quarter, Internal Audit provided results of an audit of the Department of Motor Vehicles (DMV) Employer Pull Notice Program. Based on the audit, controls were in place to ensure compliance with regulatory requirements and policies and procedures; however, recommendations were

made to enhance review controls and documentation, to update policy and job descriptions to reflect current requirements, and to consistently and timely perform monitoring activities. Management agreed and indicated that recommended actions will be implemented.

### Internal Audit Department 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.

By the quarter ended June 30, 2021, Internal Audit had achieved cumulative productivity of 77 percent, and the professional staff achieved cumulative productivity of 83 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 fourth quarter, Internal Audit completed nine price reviews. For the year ended June 30, 2021, a total of 32 price reviews were issued.

### Fraud Hotline

Internal Audit is responsible for administering the OCTA Fraud Hotline. The fraud hotline system allows reporters to file complaints anonymously through the internet or by calling a toll-free phone number. Complaints may also be received in person, by phone, or by mail directly to Internal Audit. To ensure proper recordkeeping, all complaints are recorded in the Ethicspoint system, regardless of how the complaint is received.

During the quarter ended June 30, 2021, Internal Audit received three reports. Two reports were customer complaints and were referred to customer service for disposition, and the third report was referred to Human Resources staff for investigation.

### Outstanding Audit Recommendations Tracking

At the request of the Finance and Administration Committee, a listing of outstanding audit recommendations is included with the quarterly updates to the Plan as Attachment B.

For the quarter ended June 30, 2021, Internal Audit completed follow-up reviews of five outstanding audit recommendations. Four of the recommendations were fully implemented by management and were closed out, and one was partially implemented and will be reviewed again in six months.

Eight recommendations were added to the listing based on the audit of the Bridgestone tire lease and services agreement, the semi-annual audit of investments, and the DMV Employer Pull Notice program audit, summarized above.

**Summary**

The OCTA Internal Audit FY 2020-21 Plan is being closed-out. Two projects that are in process, and one project that being finalized, will be carried forward to the OCTA Internal Audit FY 2021-22 Plan. Internal Audit will continue to perform follow-up of all outstanding findings and recommendations.

**Attachments**

- A. Orange County Transportation Authority Internal Audit Department Fiscal Year 2020-21 Internal Audit Plan, Fourth Quarter Update
- B. Outstanding Audit Recommendations, Audit Reports Issued through June 30, 2021
- C. Audit Recommendations Closed During Fourth Quarter, Fiscal Year 2020-21

**Approved by:**



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

**Orange County Transportation Authority  
Fiscal Year 2020-21 Internal Audit Plan  
Fourth 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	376.5	74	Issued
External Regulatory Audits	FY21-005	Coordinate and report on external audits by regulatory or funding agencies.	Compliance	60	90	(30)	1 Report Issued
<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	141	39	
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	101.5	59	Completed
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	58	182	11 Reports
Automated Workpaper Solution	FY21-103	System updates/training related to automated workpaper solution.	Workpaper System	40	33	7	
<b>Internal Audits</b>							
<b>Security and Emergency Preparedness</b>							
Physical Access Security	FY21-511	Review and test controls in place to ensure physical access security at Orange County Transportation Authority (OCTA) locations.	Internal Control / Operational	240	203	37	In Process
<b>Clerk of the Board</b>							
Form 700 Disclosures	FY21-510	Review and test controls in place related to coordination of Form 700 disclosures by designated employees.	Compliance	240	230.5	10	In Process

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<b>Human Resources and Organizational Development</b>							
Department of Motor Vehicles (DMV) Employer Pull Notice Program	FY21-508	Assess controls and test operation of the DMV Employer Pull Notice Program.	Internal Control/ Operational	240	274.5	(35)	Complete 5-19-21
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	399.5	(80)	Complete 2-11-21
<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	290.5	(131)	Complete 1-13-21
<b>Operations</b>							
Facilities Maintenance	FY21-507	Review of facilities maintenance function within the Operations Division, including oversight controls and contract compliance.	Operational / Compliance	300	531.5	(232)	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	370.5	(131)	Complete 4-27-21
<b>Finance and Accounting</b>							
Treasury	FY21-502, FY21-509	Semi-annual review of investments: compliance, controls, and reporting.	Compliance	200	285	(85)	2 Reports 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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<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	1286.5	(487)	32 Reports Issued
Buy America	FY21-504, FY21-505	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, FY21-801	Time allowed for unplanned audits and requests from the Board of Directors (Board) or management.	Varies	240	114.5	126	1 Report Issued
<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	34	26	
Metrolink Audit Activities	FY21-602	Obtain and review audit results of Metrolink activities	Non-Audit Service	20	49	(29)	
Capital Asset Inventory Observation	FY20-604	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	FY21-603	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	164.5	116	
<b>Total Audit Project Planned Hours (A)</b>				<b>5,150</b>	<b>5,741</b>	<b>(591)</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	171	9	
Executive Steering and Agenda Setting Meetings				180	164.5	16	
Internal Audit Staff Meetings				150	114	36	
Other Administration				1,250	1314	(64)	
			<b>Total Hours (B)</b>	<b>6,910</b>	<b>7,504</b>	<b>(594)</b>	
			<b>Department Target Efficiency (A/B)</b>	75%	<b>77%</b>		75%
			<b>Target Efficiency - Professional Staff</b>	80%	<b>83%</b>		80%

**Outstanding Audit Recommendations  
Audit Reports Issued through  
June 30, 2021**

<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	The Internal Audit Department (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.	Oct-21	Management responded that they would work with other departments to resume efforts to convert the employee exit processing form into an electronic form.	<u>Update May 2021:</u> The recommendation is partially closed, based on the development of an electronic employee exit form and procedures for involuntarily separated employees. The recommendation will remain open until the electronic employee exit form is set up to require digital signoffs from Information Systems (IS), Security and Emergency Preparedness, and General Services.
11/16/20	Not Applicable	Finance and Administration (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-21	Management agreed with the recommendations and indicated that corrective actions will be taken.	
1/13/21	20-512	Planning	Comprehensive Transportation Funding Program (CTFP): Oversight and Reporting Controls	Internal Audit recommends management re-evaluate Project V requirements and amend guidelines, cooperative agreements, and monitoring controls to ensure consistency and proper oversight.	Jul-21	Management agreed to amend Project V Guidelines to ensure that requirements in the guidelines are aligned with the type of community-based circulator services that have proven to be successful. Further, staff will amend the cooperative agreements to be consistent with the updated requirements. Staff will also include applicable customer satisfaction and on-time performance elements in the required regular reports, in order to oversee this requirement and confirm compliance.	
2/11/21	21-503	Capital Programs	Oversight Controls and Contract Compliance: OC Streetcar Project Management Consultant	Internal Audit recommends management recover identified double-billings of \$5,857.	Aug-21	Management agreed and indicated that \$5,857 would be deducted from the consultant's current invoice.	

**Outstanding Audit Recommendations**  
**Audit Reports Issued through**  
**June 30, 2021**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response and Status	Internal Audit Status
2/11/21	21-503	F&A and Capital Programs	Oversight Controls and Contract Compliance: OC Streetcar Project Management Consultant	Internal Audit recommends that management reconcile differences between the contract and procurement policy requirements for establishing labor rates of staff being moved from labor classifications to named personnel. Additionally, controls should be developed to ensure compliance with these requirements.	Aug-21	Management agreed and indicated they will amend language in the appropriate templates, to ensure consistency with policy. Additionally, clarifying changes will be made to the affected agreements as they come up for amendments. In addition, project manager written approval will be required when proposed labor rates of staff being moved to named personnel exceed the contract escalation. Project managers will also implement additional controls to ensure labor rates of staff being moved to name personnel comply with contract and policy requirements.	
3/24/21	Not Applicable	F&A and Operations	Measure M2 Agreed Upon Procedures: Selected Agencies	In connection with the Local Fair Share program, auditors made observations of ineligible maintenance of effort expenditures, misreporting of direct or indirect costs, misreporting of expenditures, and a funded project not reflected in the city's Seven-Year Capital Improvement Program plan. Senior Mobility Program audits include observations relating to late submission of a monthly report, third-party contracting, misreporting of expenditures, failure to allocate interest, and overcharge of administrative costs.	Mar-22	City management responded to the observations and OCTA staff will monitor implementation of corrective actions proposed.	

**Outstanding Audit Recommendations  
Audit Reports Issued through  
June 30, 2021**

<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>
4/27/21	21-506	Operations	Review of Oversight Controls and Contract Compliance: Bridgestone-Firestone Tire Lease and Services, Agreement No. C-9-1354	Internal Audit recommended management strengthen monitoring controls to ensure required staffing and work schedules are provided as required. Management should also consider actions to address violations of contract terms and consider adjustments to invoices to account for staffing shortages. Finally, management should evaluate whether 17-hour shifts worked by contractor staff present safety concerns that should be addressed.	Oct-21	Management agreed and advised that the Contracts Administration and Materials Management (CAMP) Department was engaged to formally address the noted contract violations and to explore adjustments to invoices to account for staffing shortages. Management will continue to closely monitor the contract to ensure proper staffing levels are maintained, work schedules are posted and adhered to, and all employee procedures are followed as specified in the terms of the contract. Management will work with OCTA's Health, Safety, and Environmental Compliance (HSEC) Department to ensure safe work practices are being followed by Bridgestone.	
4/27/21	21-506	Operations	Review of Oversight Controls and Contract Compliance: Bridgestone-Firestone Tire Lease and Services, Agreement No. C-9-1354	Internal Audit recommended management review and enforce all contract terms. In addition, management should monitor to ensure tire inventories are maintained so that timely service can be provided at each of the bus bases. Finally, management should seek reimbursement from Bridgestone for the damaged equipment.	Oct-21	Management agreed and immediately worked with Bridgestone and HSEC to ensure all required safety documentation was provided. Management has advised Bridgestone of the requirement to maintain all documentation pertaining to safety inspections, training, staffing, and recordable injuries. Management will monitor for compliance. Finally, Bridgestone has committed to provide documented tire inventory levels each month.	
4/27/21	21-506	Operations	Review of Oversight Controls and Contract Compliance: Bridgestone-Firestone Tire Lease and Services, Agreement No. C-9-1354	Internal Audit recommended management collaborate with Bridgestone and MV Transit to develop a process to ensure that wheel torque is re-checked as specified in the contract.	Oct-21	Management agreed and requested that Bridgestone re-torque the wheels on the entire fleet at the Irvine Construction Circle Base to ensure all wheels are torqued to specification. Management also asked that Bridgestone maintain documentation of all re-torque occurrences at the Irvine Construction Circle Base and provide monthly reports to the project manager.	

**Outstanding Audit Recommendations**  
**Audit Reports Issued through**  
**June 30, 2021**

<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>
4/27/21	21-506	Operations	Review of Oversight Controls and Contract Compliance: Bridgestone-Firestone Tire Lease and Services, Agreement No. C-9-1354	Internal Audit recommended management implement monitoring controls to ensure Bridgestone complies with contract requirements for employee qualifications and regulations pertaining to a drug and alcohol-free workplace.	Oct-21	Management agreed and indicated that Bridgestone will be required to provide an on-boarding checklist that documents that background checks are conducted and qualifications requirements are met. Management will also implement monitoring controls to ensure Bridgestone complies with regulations pertaining to a drug and alcohol-free workplace.	
4/28/21	21-509	F&A	Investments: Compliance, Controls, and Reporting, July 1, 2020 through December 1, 2020	Internal Audit recommended that Treasury incorporate suggested assertions into monthly debt and investment reports.	Oct-21	Management agreed with the recommendation and will incorporate the assertions beginning with the next monthly report, which will be for the month of April 2021.	
5/19/21	21-508	HROD and Operations	Department of Motor Vehicles (DMV) Employer Pull Notice Program	Internal Audit recommended management improve review controls and documentation of follow-up activities.	Nov-21	Management agreed and indicated that recommended actions will be implemented.	
5/19/21	21-508	HROD	DMV Employer Pull Notice Program	Internal Audit recommended the policy be updated to properly define regulated employees, that evidence of No Drive notices be retained, and that controls for updates to the No Drive listing be enhanced.	Nov-21	Management agreed and indicated that recommendations will be implemented.	
5/19/21	21-508	HROD and Operations	DMV Employer Pull Notice Program	Internal Audit recommended strengthening of Department of Motor Vehicles System (DMVS) controls and consistent performance of mock inspections, which serve as a monitoring control.	Nov-21	Management responded that the DMVS issues will be addressed, and mock inspections will be resumed on an annual basis.	

**Audit Recommendations Closed During  
Fourth 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>
10/21/20	20-507	Finance and Administration (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.	A procedure was developed and implemented to document the monthly and annual review of banking fees.
10/21/20	20-507	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.	A procedure was developed to ensure timely updates to the bank signature card as required.
10/12/20	21-501	Human Resources and Organizational Development (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.	Information Systems completed the stale accounts review in the first quarter of 2021 and is working on the second quarter review.
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.	HROD is logging employee exit surveys sent to voluntarily separating employees and presenting the exit survey results at the Division Leads meeting twice a year.