



**September 25, 2024**

**To:** Finance and Administration Committee

**From:** Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director,  
Internal Audit Department

**Subject:** Agreement No. C-4-1816 with Woodruff & Smart for Legal Services, Internal Audit Report No. 25-503

### **Overview**

The Internal Audit Department of the Orange County Transportation Authority has completed an audit of Agreement No. C-4-1816 with Woodruff & Smart for legal services. Based on the audit, Woodruff & Smart complies with the terms of the agreement and invoice review controls are generally adequate; however, one recommendation was made to enhance controls to include verification that pre-approval of legal subcontractors is obtained.

### **Recommendation**

Direct staff to implement one recommendation provided in Agreement No. C-4-1816 with Woodruff & Smart for Legal Services, Internal Audit Report No. 25-503.

### **Background**

The Orange County Transportation Authority (OCTA) contracts with Woodruff & Smart (WS) under Agreement No. C-4-1816 (agreement) to provide general counsel and legal defense assistance on an as-requested basis. WS provides general counsel services for OCTA, its discrete legal entities, and the Los Angeles-San Diego-San Luis Obispo Rail Corridor Agency (LOSSAN). Areas of practice include transportation law, public law, administrative law, environmental and land-use law, employment/labor law, tort and employment law, and general government procedures.

On a monthly basis, WS prepares invoices that include detailed supporting documentation for hourly charges, subcontractor costs, and expenses incurred in the course of providing legal services. General counsel invoices, litigation invoices, and LOSSAN invoices are reviewed by OCTA's Chief Financial Officer, OCTA's Director of Risk Management, and the LOSSAN Managing Director, respectively.

***Discussion***

Invoice review controls should be enhanced to include verification that pre-approval for legal subcontractors is obtained as required by the agreement. The agreement requires pre-approval of legal subcontractors from OCTA's Board of Directors or OCTA's Chief Executive Officer. Internal Audit identified a couple of legal subcontractors for which pre-approval letters were not on file and invoice review procedures do not currently include verification of pre-approval. A recommendation was made to enhance invoice review procedures to include verification of pre-approval of legal subcontractors. Management agreed and indicated that this procedure will be implemented.

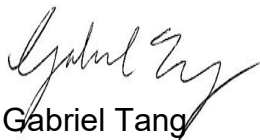
***Summary***

Internal Audit has completed an audit of Agreement No. C-4-1816 with Woodruff & Smart for legal services, and has offered one recommendation, which management has agreed to implement.

***Attachment***

- A. Agreement No. C-4-1816 with Woodruff & Smart for Legal Services, Internal Audit Report No. 25-503

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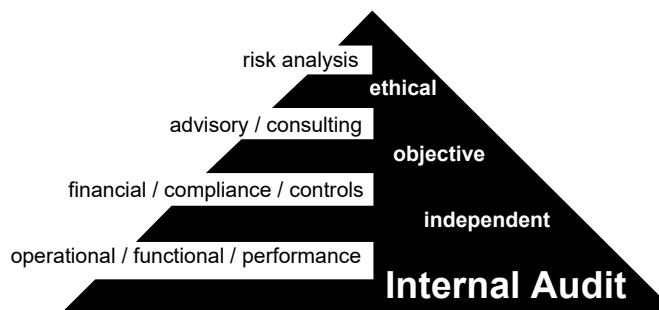
# ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



## Agreement No. C-4-1816 with Woodruff & Smart for Legal Services

### Internal Audit Report No. 25-503

September 9, 2024



**Audit Team:** Gabriel Tang, CPA, Principal Internal Auditor  
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**ORANGE COUNTY TRANSPORTATION AUTHORITY  
INTERNAL AUDIT DEPARTMENT  
Agreement No. C-4-1816 with Woodruff & Smart for Legal Services  
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**INTERNAL AUDIT DEPARTMENT**  
**Agreement No. C-4-1816 with Woodruff & Smart for Legal Services**  
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## **Conclusion**

The Internal Audit Department (Internal Audit) of the Orange County Transportation Authority (OCTA) has completed an audit of Agreement No. C-4-1816 with Woodruff & Smart (WS) (renamed Woodruff Law) for legal services. Based on the audit, WS complies with the terms of the agreement and invoice review controls are generally adequate; however, one recommendation was made to enhance controls to include verification that pre-approval of legal subcontractors is obtained.

## **Background**

OCTA contracts with WS under Agreement No. C-4-1816 (agreement) to provide general counsel and legal defense assistance on an as-requested basis. The original agreement term ran from January 1, 2015 through December 31, 2019, with one, five-year option term. On June 27, 2024, the Board of Directors (Board) elected to extend the agreement for an additional five years through December 31, 2029. WS provides general counsel services for OCTA, its discrete legal entities, and the Los Angeles-San Diego-San Luis Obispo Rail Corridor Agency (LOSSAN). Areas of practice include transportation law, public law, administrative law, environmental and land-use law, employment/labor law, tort and employment law, and general government procedures.

The agreement is a time-and-expense agreement that specifies fully burdened hourly rates by labor category, and includes key terms governing key personnel, insurance requirements, annual hourly rate adjustments, legal subcontractors, and invoice and expense requirements.

WS accumulates details of activities performed in its timekeeping system. On a monthly basis, WS prepares invoices that include detailed supporting documentation for hourly charges, subcontractor costs, and expenses incurred in the course of providing legal services. General counsel invoices, litigation invoices, and LOSSAN invoices are prepared by WS and reviewed by OCTA's Chief Financial Officer, OCTA's Director of Risk Management, and the LOSSAN Managing Director, respectively, to ensure that charges are accurate and properly recorded to various projects and funding sources. Invoices are authorized for payment in accordance with OCTA's Payment Authorization Policy.

Payments for legal services for the calendar years 2022 and 2023 were approximately \$7.89 million and \$8.59 million, respectively.

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## **Objectives, Scope, and Methodology**

The objectives were to assess and test contract compliance and invoice review controls related to the agreement with WS for legal services.

According to Generally Accepted Government Auditing Standards (GAGAS), internal control is the system of processes that an entity's oversight body, management, and other personnel implement to provide reasonable assurance that the organization will achieve its operational, reporting, and compliance objectives. The five components are control environment, risk assessment, control activities, information and communication, and monitoring.<sup>1</sup> The components and principles that were evaluated as part of this audit are:

- Control Environment
  - OCTA demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- Control Activities
  - OCTA deploys control activities through policies that establish what is expected and procedures that put policies into action.

The scope was limited to Agreement No. C-4-1816 and all amendments. The scope included evidence of insurance, hourly rate increase amendments, and invoices paid during the period July 1, 2022 through June 30, 2024. The scope also included invoiced hours and WS timekeeping system reports for April 2024.

The methodology consisted of testing evidence of insurance and hourly rate increases for compliance with agreement terms and testing a judgmental sample of invoices paid for adequate support and proper authorization, evidence of pre-approval for legal subcontractors, and compliance with agreement terms. The judgmental sample was selected to provide coverage throughout the scope period. The methodology also included testing a judgmental sample of invoiced hours to the underlying timekeeping system reports maintained by WS. The judgmental sample was selected to ensure coverage of the different types of legal services.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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<sup>1</sup> See U.S. Government Accountability Office publication, "Standards for Internal Control in the Federal Government," available at <http://www.gao.gov/products/GAO-14-704G>, for more information.

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
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**Audit Comment, Recommendation, and Management Response**

**Invoice Review Controls Should be Enhanced**

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Invoice review controls should be enhanced to include verification that pre-approval for legal subcontractors is obtained as required by the agreement.

The agreement states "If it becomes necessary to hire additional law firms to handle legal matters before OCTA, WS shall obtain specific direction from OCTA's Board or prior written permission from OCTA's Chief Executive Officer before engaging any additional law firm." Internal Audit identified a couple of legal subcontractors for which pre-approval letters were not on file and invoice review procedures do not currently include verification of pre-approval.

**Recommendation 1:**

Internal Audit recommends controls be enhanced to include verification that pre-approval of legal subcontractors has been obtained.

**Management Response:**

Management agrees with the recommendation. Staff that reviews the legal bill will update invoice review procedures to ensure that pre-approval letters for legal subcontractors are on file before invoices are paid. General Counsel's office has agreed to provide email copies of the pre-approval letters to appropriate parties once they are obtained.