



October 23, 2019

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Fiscal Year 2019-20 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 2019-20 Internal Audit Plan on August 12, 2019. This update is 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 2019-20 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) 2019-20 Internal Audit Plan (Plan) (Attachment A) reflects the status of each project.

During the first quarter of the FY, Internal Audit issued the results of an audit of the agreement with Element Markets Renewable Energy, LLC, for the purchase of renewable natural gas and monetization of credits under the state Low Carbon Fuel Standard Program and the federal Renewable Fuel Standard Program. The audit found that program oversight controls are adequate, credit revenues are properly monitored, reconciled, and recorded, and invoices are properly reviewed and authorized.

Internal Audit also issued results of an audit of coach operator scheduling. The audit concluded that the coach operator scheduling process is adequate to ensure compliance with the Collective Bargaining Agreement between the Orange County Transportation Authority and Teamsters Local 952, and with the California Code of Regulations.

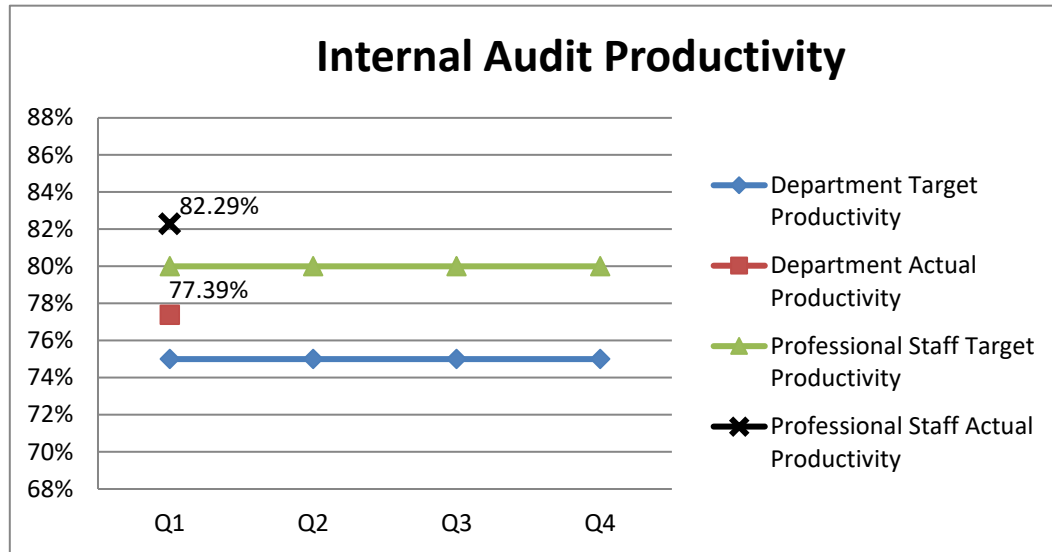
A required audit of the State Transportation Improvement Program Planning, Programming and Monitoring Program for Fiscal Year 2016-17, completed by the professional accounting firm of BCA Watson Rice LLP, found that project funds were used in conformance with Article XIX of the California State Constitution.

In addition to several ongoing audits, the primary focus of Internal Audit as of September 30, 2019, and in the ensuing months, will be to provide coordination of the annual financial audits and agreed upon procedure reviews conducted by 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, 2019, Internal Audit achieved productivity of 77 percent, and the professional staff achieved productivity of 82 percent.



Price Reviews

At the request of the Contracts Administration and Materials Management Department (CAMM), and consistent with OCTA 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 four price reviews.

Fraud Hotline

During the quarter ended September 30, 2019, Internal Audit received six reports through OCTA’s Fraud Hotline, www.ethicspoint.com. Based on the nature of the complaints, four reports were referred to management for disposition and two were investigated, but not substantiated, by Internal Audit. 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, 2019, 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, 2018, Internal Audit completed follow-up reviews of four outstanding audit recommendations and closed all four (Attachment C). No recommendations were 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 Internal Audit Department
Fiscal Year 2019-20 Internal Audit Plan, First Quarter Update
- B. Outstanding Audit Recommendations, First Quarter, Fiscal Year 2019-20
- C. Audit Recommendations Closed During First Quarter, Fiscal Year 2019-20

Prepared by:



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**Orange County Transportation Authority
Internal Audit Department
Fiscal Year 2019-20 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 Procedures Reviews	FY20-001 through FY20-004	Coordinate and report on annual financial and agreed-upon procedures reviews for fiscal year 2019-20.	Financial	450	90	360	
Federal Triennial Review	FY20-006	Coordinate and report on results of the required Federal Transit Administration's Triennial Review.	Compliance	80	12	68	
External Regulatory Audits	FY20-005	Coordinate and report on external audits by regulatory or funding agencies.	Compliance	60		60	
Internal Audit Department Projects							
Risk Assessment and Annual Audit Plan	FY20-100	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	200	52	148	
Quality Assurance and Self-Assessment	FY20-101	Update of Internal Audit Policies & Procedures. Annual self assessment of the Internal Audit Department's (Internal Audit) compliance with Government Auditing Standards.	Quality Assurance	160	55	105	
Fraud Hotline Activities	FY20-102	Administrative duties related to maintenance of the fraud hotline and work related to investigations of reports of fraud, waste, or abuse.	Fraud Hotline	240	28	213	6 Reports Received
Automated Workpaper Solution	FY20-103	System updates/training related to automated workpaper solution.	Workpaper System	40	3	37	
Internal Audits							
Clerk of the Board							
Board Compensation and Ethics Compliance	FY19-513	Review procedures and record-keeping processes evidencing compliance with Assembly Bill 1234.	Compliance	180	191	(11)	In Process
Express Lanes Program							
Master Custodial Agreement	FY19-514	Review and test activities related to the Master Custodial Agreement between the Orange County Transportation Authority (OCTA), Riverside County Transportation Commission, and the Bank of the West for tracking and deposit of revenues and transponder deposits.	Compliance	300	152	148	In Process
Human Resources and Organizational Development							
Medical Exams	FY20-5XX	Assess and test controls to ensure compliance with Federal Motor Carrier Safety Administration regulations, policy and procedurs related to employee medical safety certifications.	Compliance	180		180	
Department of Motor Vehicles (DMV) Pull Notice Program	FY20-5XX	Assess and test operation of the DMV Pull Notice Program.	Compliance	240		240	

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Capital Programs							
Interstate 5 (I-5) Project: State Route (SR) 55 to SR-57	FY20-5XX	Review the I-5 Project: SR-55 to SR-57, including project administration, oversight controls, and contract compliance.	Internal Control/ Compliance	300		300	
City of Orange Parking Expansion	FY19-508	Review of the Orange Parking Expansion project, including project administration, oversight controls, and contract compliance.	Internal Control	220	166	55	
Planning							
Comprehensive Transportation Funding Programs (CTFP): Oversight and Reporting	FY20-5XX	Review and assessment of OCTA's monitoring and reporting controls related to CTFP projects.	Internal Control	240		240	
Operations							
Coach Operator Scheduling	FY19-505	Review the coach operator scheduling process, including the use of the HASTUS application.	Operational	80	88	(8)	Issued 8-26-19
Same Day Taxi Service	FY20-503	Assess adequacy of oversight controls and contract compliance with key provisions of the agreement with Yellow Cab of Orange County for the provision of Same Day Taxi Service.	Internal Control/ Compliance	300	80	220	In Process
Revenue Vehicle Maintenance	FY20-5XX	Evaluate the adequacy of controls in place to ensure compliance with revenue vehicle maintenance standards and test for compliance with maintenance policy and procedures.	Operational	300		300	
Finance and Accounting							
Treasury	FY20-502	Semi-annual review of investments: compliance, controls, and reporting.	Compliance	200	57	143	
Grant Closeouts	FY19-510	As-needed, required financial and compliance audits of grants at closeout to ensure propriety of expenditures.	Compliance	40	22	18	Complete 7-31-19
Renewable Natural Gas Credits	FY19-511	Review and test compliance with the agreement with Element Markets for renewable gas credits.	Compliance	60	23	37	Complete 7-16-19
Corporate Credit Cards	FY20-5XX	Evaluate the adequacy of controls over corporate credit cards and test for compliance with policy and procedures.	Operational	240		240	
Interagency Revenue Agreements	FY20-5XX	Review and test activities related to the interagency fare revenue agreements between OCTA and Southern California Regional Rail Authority and the Los Angeles-San Diego-San Luis Obispo Rail Corridor Agency.	Operational	240		240	
Banking Services - Bank of the West	FY20-5XX	Assess and test controls to ensure compliance with the agreement between OCTA and Bank of the West for banking services.	Operational/ Compliance	240		240	
Information Systems							
Patch Management	FY20-501	Assess the adequacy of the patch management program.	Operational	120	28	92	In Process

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Contract Administration and Materials Management (CAMM)							
Price Reviews	PR20-5XX	As requested by the Contracts Administration and Materials Management (CAMM) Department, apply agreed-upon procedures to Sole Source, Single Bid, and Architectural and Engineering firm proposals.	Price Review	800	143	657	4 Reports Issued
Buy America	FY20-5XX	As requested by CAMM, apply agreed-upon procedures to determine compliance with Buy America requirements.	Buy America	200		200	
External Affairs							
Bus Marketing	FY19-512	Review Bus Marketing program; assess and test oversight controls and contract compliance over contracts for bus marketing, public outreach, etc.	Operational/ Compliance	160	406	(246)	In Process
Unscheduled Reviews and Special Requests							
Unscheduled Reviews and Special Requests	FY20-800	Time allowed for unplanned audits and/or and to address requests from the Board and management.	Varies	240	23	217	
Monitoring Activities							
Measure M Taxpayer Oversight Committee (TOC)	FY20-601	Coordination of audit activities on behalf of the Audit Subcommittee of the TOC.	Administrative Support	60	3	57	
Metrolink Audit Activities	FY20-602	Obtain and review audit results of Metrolink activities.	Non-Audit Service	40		40	
Capital Asset Inventory Observation	FY20-603	At the request of the Finance and Administration Division, observe and apply limited procedures related to the bi-annual capital asset inventory counts.	Non-Audit Service	80		80	
Bus Base Inspections	FY20-604	At the request of the Transit Division, participation on annual base inspection teams.	Non-Audit Service	40	12	28	
Follow-up Reviews							
Follow-up Reviews and Reporting	FY20-700	Follow-up on the status of management's implementation of audit recommendations.	Follow-up	320	63	257	
Total Audit Project Planned Hours (A)				6,650	1,696	4,954	

Orange County Transportation Authority
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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	27	153	
Executive Steering and Agenda Setting Meetings				180	33	147	
Internal Audit Staff Meetings				150	50	101	
Other Administration				1,500	386	1,114	
			Total Hours (B)	8,660	2,192	6,469	
			Department Target Efficiency (A/B)	75%	77%		
			Target Efficiency - Professional Staff	80%	82%		

**Outstanding Audit Recommendations
First Quarter, Fiscal Year 2019-20**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response and Status	Internal Audit Status
10/10/18	18-514	Operations Division and Finance and Administration (F&A)	ACCESS Service	Internal Audit recommends that management enhance procedures for monitoring of ACCESS fare revenue. Procedures should include monitoring of coupons collected by both MV Transportation, Inc. (MV) and Yellow Cab, reconciliation of MV's daily coupon count sheets to the farebox reconciliation document, and investigation of variances exceeding a stated threshold.	Oct-19	Management agrees to enhance procedures for monitoring of ACCESS fare revenue and coupons collected by both MV and Yellow Cab. In addition, management will continue to reconcile count sheets to the farebox reconciliation report and will establish a threshold for researching variances.	Update June 2019: Management will begin enforcing a 1 percent threshold for fare revenue variances on July 1, 2019, when the contract amendment is effective. Management has not implemented a procedure to monitor coupons collected by Yellow Cab.
3/12/19	N/A	Planning Division (Planning) and F&A	Measure M (M2) City Audits: Local Fair Share and Senior Mobility Program	M2 Local Programs staff should review observations with legal counsel and develop recommendations for the Board of Directors' (Board) consideration. In addition, Planning and F&A staff should monitor implementation of corrective action by cities.	Sep-19	Staff will review observations and make recommendations for the Boards' action. Staff will follow-up with the cities to verify implementation of corrective actions.	Not yet due.
4/5/19	19-504	F&A	Mobile Ticketing Operations	Controls should be implemented to ensure timely removal of system access upon employee termination.	Oct-19	Information Systems management agrees to put procedures in place to ensure timely removal of system access upon employee termination or reassignment.	Not yet due.
4/5/19	19-504	F&A	Mobile Ticketing Operations	Written policies and procedures should be developed for mobile ticketing operations and activities.	Oct-19	Management agrees with the recommendation and will develop policies and procedures to ensure proper identification and assignment of responsibilities, and continuity of operations in the absence of key staff.	Not yet due.
4/9/19	19-503	Human Resources and Organizational Development (HROD)	Recruitment and Employment	Internal Audit recommended management develop and implement detailed procedures that address all recruitment steps and reconsider whether to hire applicants with pending license suspensions or implement monitoring controls.	Oct-19	Management is in the process of revamping its procedures to address all recruitment steps, including procedures specific to coach operator and maintenance employee recruitments. Procedures will be developed to address the screening, hiring, and monitoring of applicants with pending license suspensions, pending criminal cases, and unfavorable or missing references, consistent with California law.	Not yet due.
4/9/19	19-503	HROD	Recruitment and Employment	Internal Audit recommended management enhance procedures to ensure offers of relocation are properly approved and adequately documented. Management should also implement monitoring controls to enhance compliance with recruitment policies and procedures.	Oct-19	A Reimbursement of Relocation Expenses Procedure has been provided to staff. In addition, template language has been developed to insert into any candidate offer letter that includes relocation expenses. The offer letter requires the candidate's signature and acknowledges receipt of, and agreement with, the Relocation Expenses Policy, which includes a payback provision. Management will determine the best means to implement controls to ensure compliance with policy.	Not yet due.

**Outstanding Audit Recommendations
First Quarter, Fiscal Year 2019-20**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response and Status	Internal Audit Status
4/9/19	19-503	HROD	Recruitment and Employment	Since service workers are required to operate buses, even on a limited basis, Internal Audit recommends that management reconsider the removal of the commercial driver license requirement. Alternatively, management should issue a formal directive to base management that service workers should never be asked or allowed to drive buses outside base property.	Oct-19	Management will update the Commercial Driver License (CDL) and Renewal Policy, to address the licensing of all Maintenance employees including what is required for each position. For positions that do not require a CDL, the policy will state those individuals shall not operate a vehicle outside of the base property. The policy changes will be tailgated, and Maintenance employees will sign an acknowledgement receipt of the policy. In addition, the policy will be included in new Maintenance employee orientation. Policy update, tailgating, and distribution will be completed within 30 days.	Not yet due.
4/30/19	19-507	F&A	Investments: Compliance, Controls and Reporting July 1, 2018 - December 31, 2018	Internal Audit recommends that additional training be provided on the preparation of investment worksheets and reports. Also, Internal Audit recommends that Treasury use custodial statements as the basis for preparing the reports or, if Clearwater book values are used for reporting, that reconciliations be performed and documented.	Oct-19	Management agrees with the recommendation. In the future, if Clearwater book values are used for reporting, then staff will reconcile any differences between Clearwater book values and custodial statement book values. In addition, staff has already provided additional training and modified the review process in order to improve the reporting process going forward.	Not yet due.
4/30/19	19-507	F&A	Investments: Compliance, Controls and Reporting July 1, 2018 - December 31, 2018	Internal Audit recommends Treasury implement controls to monitor the ten percent threshold for asset-backed securities and ensure secondary review of daily holding reports is performed as required.	Oct-19	Staff has worked with Clearwater and is already using a report which segregates mortgage and asset-backed securities so that the ten percent threshold on asset-backed securities can be monitored. In addition, staff has reviewed balances for asset-backed securities for all investment managers during the period and all investment managers were in compliance. In addition, a process has been put in place to ensure secondary review of the daily holdings reports is performed.	Not yet due.

**Outstanding Audit Recommendations
First Quarter, Fiscal Year 2019-20**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Initiate Next Update	Management Response and Status	Internal Audit Status
4/1/19	N/A	Operations, Planning, and F&A	Fiscal Year (FY) 2016-18 Transportation Development Act (TDA) Performance Audit OCTA	Kimley Horn provided seven recommendations for consideration. The recommendations focused primarily on continuing existing efforts to enhance reporting processes, increase ridership, maximize revenues, improve documentation of the farebox recovery ratio, and planning for impacts of longer bus lives and clean fleet requirements. Kimley Horn also offered recommendations to improve paratransit services by performing recurring route efficiency reviews and considering alternative contracting models for the service.	Oct-19	Management agreed to continue existing efforts and consider recommendations for enhancements.	Not yet due.
4/1/19	N/A	F&A	FY 2016-18 TDA Performance Audit Laguna Beach Municipal Transit Lines (LBMTL)	Direct staff to monitor implementation of recommendations included in the FY 2016-18 Triennial Performance Audit of LBMTL.	Oct-19	Staff will monitor implementation of recommendations by LBMTL.	Not yet due.
6/17/19	19-506	HROD	Construction Safety Program	Internal Audit recommends that management further develop policies, procedures, and guidelines to provide a comprehensive, risk-based framework for monitoring contractor compliance with construction safety regulations.	Dec-19	Management concurs with the recommendation and will further evaluate the safety specifications levels and make appropriate revisions to streamline the requirements of submittal deliverables for lower risk contracts. Management will also implement procedures to ensure safety-related training for project managers and safety reporting by applicable contractors.	Not yet due.
6/17/19	19-506	HROD	Construction Safety Program	Internal Audit recommends that management develop procedures for documenting and tracking safety activities. Documented activities, and follow-up of safety issues observed, should be retained and used to complete monthly activity reports.	Dec-19	Management concurs with the recommendation and will develop a tracking tool to document applicable construction safety activities and observations.	Not yet due.

**Audit Recommendations Closed During
First Quarter, Fiscal Year 2019-20**

Audit Issue Date	Report Number	Division/ Department/ Agency	Audit Name	Recommendation	Management Response
7/12/18	18-505	Capital Programs	Interstate-405 (I-405) Improvement Project: Project Management Contracts	The Internal Audit Department (Internal Audit) recommends that management develop and implement appropriate controls to ensure labor classifications are only used as intended and all labor rates are held to contract escalation limits. Invoices should be monitored to ensure staff working steadily on the project are added to the contract in a timely manner.	Management agrees with the recommendation to develop and implement controls regarding the use of labor classifications. Staff that works, or is proposed to work, on a continuous basis for a period of six months or more will be added as named personnel to the contract. Labor classifications will continue to be utilized for staff working temporarily on the project. Additionally, management will require that consultants receive approval from the Orange County Transportation Authority's (OCTA) project manager in writing prior to adjusting the salary of individuals within labor classifications at a rate greater than the contractually allowable escalation rate for named personnel. Update July 2019: Management has implemented monitoring controls, processed amendments to consultant agreements to add applicable staff, and is requiring both consultants to confirm on invoices that there have been no rate increases greater than the contract escalation rate, based on their own internal monitoring.
11/29/18	18-512	Finance and Administration (F&A)	Interstate 5 (I-5) High Occupancy Vehicle (HOV) Improvement Project: Pacific Coast Highway (PCH) to San Juan Creek Road	Internal Audit recommends management enforce procurement policy or update the policy to include parameters for back-dating of formal amendments. Management should also remind staff that amendments should be requested in a timely fashion to ensure processing before contracts expire	Management agrees to enforce the current policy regarding processing of formal amendments. Management will conduct training for Contracts Administration and Materials Management (CAMM) staff and review the requirements for processing formal amendments. Staff is also working with the general counsel's office to address the changes in contract templates to eliminate any conflicts related to the interpretation of the "effective dates". CAMM also plans to conduct training for OCTA staff on the amendment process in 2019 through the Procurement 101 training series. Update September 2019: Management has provided staff training and revised contract templates to clarify effective dates and enforce policy.
11/29/18	18-512	F&A	I-5 HOV Improvement Project: PCH to San Juan Creek Road	Internal Audit recommends that changes to firm fixed pricing of individual tasks, as established in contracts, be made through the amendment process. Management should ensure amendments needed for additional services are requested and processed in a timely manner.	Management agrees with the recommendation to request amendments for changes to firm fixed pricing of individual tasks, as established in contracts which were procured with price as a factor. Management will reinforce with staff the need to request and process amendments for additional services in a timely manner. Update September 2019: Management has provided staff training to reinforce requirements for processing amendments and to emphasize timeliness.
11/29/18	18-512	F&A	I- 5 HOV Improvement Project: PCH to San Juan Creek Road	Management should either update its Program Management Procedures to reflect state and federal requirements or enhance controls to ensure that projects comply with all procedures identified in the manual.	Management agrees with the recommendation and will review the relevant procedures from the Program Management Procedures Manual with staff to ensure that projects are in compliance. Project managers will ensure that project management plans (PMP's) are prepared for each project. Update September 2019: Management has provided staff training to ensure requirements for preparing PMP's are complied with.

**Audit Recommendations Closed During
First Quarter, Fiscal Year 2019-20**

3/12/19	N/A	Planning Division (Planning) and F&A	Measure M (M2) City Audits: Local Fair Share and Senior Mobility Program	M2 Local Programs staff should review observations with legal counsel and develop recommendations for the Board of Directors' (Board) consideration. In addition, Planning and F&A staff should monitor implementation of corrective action by cities.	Staff will review observations and make recommendations for the Boards' action. Staff will follow-up with the cities to verify implementation of corrective actions. Update September 2019: Staff made recommendations to the Board at the May 13, 2019 Board meeting and obtained direction. As a result, both the City of Stanton and the City of Santa Ana were found ineligible to receive Measure M funds and the Chief Executive Officer was authorized to execute settlement agreements with each of the cities to outline requirements for restoring eligibility.
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