



SOUTHERN CALIFORNIA
ASSOCIATION OF GOVERNMENTS
818 West 7th Street, 12th Floor
Los Angeles, CA 90017
T: (213) 236-1800
F: (213) 236-1825
www.scag.ca.gov

REGULAR MEETING

AUDIT COMMITTEE

Tuesday, September 12, 2017
2:00 p.m. – 3:30 p.m.

SCAG Main Office
818 W. 7th Street, 12th Floor
Policy Committee Room A
Los Angeles, CA 90017
(213) 236-1800

Teleconference and Videoconference will be available

If members of the public wish to review the attachments or have any questions on any of the agenda items, please contact Carmen Summers at (213) 236-1984 or via email at SUMMERS@scag.ca.gov. Agendas & Minutes for the Audit Committee are also available at:
<http://www.scag.ca.gov/committees/Pages/default.aspx>

SCAG, in accordance with the Americans with Disabilities Act (ADA), will accommodate persons who require a modification of accommodation in order to participate in this meeting. SCAG is also committed to helping people with limited proficiency in the English language access the agency's essential public information and services. You can request such assistance by contacting Tess Rey-Chaput at (213) 236-1908. We request at least 72 hours (three days) notice to provide reasonable accommodations and will make every effort to arrange for assistance as soon as possible.

REGIONAL COUNCIL OFFICERS

President
Margaret E. Finlay, Duarte

First Vice President
Alan D. Wapner, Ontario

Second Vice President
Bill Jahn, Big Bear Lake

Immediate Past President
Michele Martinez, Santa Ana

COMMITTEE CHAIRS

Executive/Administration
Margaret E. Finlay, Duarte

Community, Economic &
Human Development
Rex Richardson, Long Beach

Energy & Environment
Carmen Ramirez, Oxnard

Transportation
Curt Hagman, San Bernardino County

Audit Committee Membership September, 2017

Members

1. Hon. Bill Jahn, Big Bear Lake, (**Chair**)
2. Hon. Margaret Finlay, Duarte
3. Hon. Alan Wapner, Ontario

4. Hon. Michele Martinez, Santa Ana
5. Hon. Glen Becerra, Simi Valley
6. Hon. Joe Buscaino, Los Angeles
7. Hon. Jeffrey Giba, Moreno Valley
8. Hon. Ray Marquez, Chino Hills
9. Hon. Greg Pettis, Cathedral City
10. Hon. Cheryl Viegas-Walker, El Centro
11. Hon. Edward H. J. Wilson, Signal Hill

Representing

District 11, SCAG, 2nd Vice-President
District 35, SCAG President
**SBCTA/SBCOG, SCAG, 1st Vice-
President**
District 16, SCAG, Imm. Past President
District 46
District 62
District 69
District 10
District 2
District 1
Gateway Cities COG

Teleconference Locations-Updated

Hon. Bill Jahn
43115 Plymouth Rd.
Big Bear Lake, CA 92315

Hon. Margaret Finlay
2221 Rim Road
Duarte, CA 91008

Hon. Alan Wapner
Ontario City Hall
303 East "B" Street
Ontario, CA 91764

Hon. Michele Martinez
1212 S. Parton Street
Santa Ana CA 92707

Hon. Glen Becerra
Los Angeles Metro
One Gateway Plaza
Los Angeles, CA 90012-2952

Hon. Cheryl Viegas-Walker
290 13th Street, Apt 3
Brooklyn, NY 11215

Hon. Greg Pettis
City Hall
68700 Avenida Lalo Guerrero
Cathedral City, CA 92234

Hon. Ed Wilson, CPA (Inactive)
Mayor Signal Hill
City Hall
2175 Cherry Ave.
Signal Hill, CA 90755

Videoconference Location

Hon. Jeffrey Giba
Hon. Ray Marquez
SCAG Riverside Regional Office
3403 10th Street, Suite 805
Riverside, CA 92501



**AUDIT COMMITTEE
TELECONFERENCE INFORMATION
Pursuant to Government Code Section §54953**

INSTRUCTIONS REGARDING TELECONFERENCE

Teleconference number provided under separate cover

**For Brown Act requirements, please ensure that your agenda is posted
at your teleconference location.**

**Thank you. If you have any questions, please call
Carmen Summers at (213) 236-1984**



AUDIT COMMITTEE AGENDA SEPTEMBER 12, 2017

TIME PG#

The Audit Committee may consider and act upon any of the items listed on the agenda regardless of whether they are listed as information or action items.

CALL TO ORDER & PLEDGE OF ALLEGIANCE

(Hon. Bill Jahn, Chair)

ROLL CALL

PUBLIC COMMENT PERIOD – Members of the public desiring to speak on items on the agenda, or items not on the agenda, but within the purview of the Audit Committee must fill out and present a speaker’s card to the Assistant prior to speaking. Comments will be limited to three (3) minutes per speaker provided that the Chair has the discretion to reduce this time limit based on the number of speakers. The Chair may limit the total time for all public comments to twenty (20) minutes.

REVIEW and PRIORITIZE AGENDA ITEMS

SELECTION OF VICE CHAIR

CONSENT CALENDAR

Approval Items

- | | | | |
|--|-------------------|--|----------|
| 1. <u>Minutes of the May 9, 2017 Meeting</u> | Attachment | | 1 |
|--|-------------------|--|----------|

INFORMATION ITEMS

- | | | | |
|---|-------------------|---------------|-----------|
| 2. <u>Ethics Hotline Update</u>
<i>(Joshua Margraf, Internal Auditor)</i> | Attachment | 10 min | 5 |
| 3. <u>Contract Closure Review</u>
<i>(Joshua Margraf, Internal Auditor)</i> | Attachment | 40 min | 13 |
| 4. <u>Internal Audit Status Report</u>
<i>(Joshua Margraf, Internal Auditor)</i> | Attachment | 10 min | 27 |

AUDIT COMMITTEE AGENDA SEPTEMBER 12, 2017

TIME PG#

FUTURE AGENDA ITEMS

Any member or staff desiring to place items on a future agenda may make such a request.

ANNOUNCEMENTS

ADJOURNMENT

The next regular meeting of the Audit Committee is scheduled for Tuesday, November 14, 2017, 2:30-4:00 p.m., at the SCAG Los Angeles Office.

Audit Committee
of the
Southern California Association of Governments

May 9, 2017

Minutes

THE FOLLOWING MINUTES ARE A SUMMARY OF ACTIONS TAKEN BY THE AUDIT COMMITTEE. AN AUDIO OF THE ACTUAL MEETING IS AVAILABLE FOR LISTENING IN SCAG'S OFFICE.

The Audit Committee held its meeting at the SCAG offices in downtown Los Angeles.

Members Present

Representing

Hon. Margaret Finlay, Duarte (**Vice-Chair**)

District 35, SCAG President
(Via Teleconference)

Hon. Michele Martinez, Santa Ana

District 16, SCAG Imm. Past President
(Via Teleconference)

Hon. Alan Wapner, Ontario, (**Chair**)

SANBAG, 1st Vice-President
(Via Teleconference)

Hon. Cheryl Viegas-Walker, El Centro

District 1, SCAG (Via Teleconference)

Hon. Edward H. J. Wilson, Signal Hill

Gateway Cities COG
(Via Teleconference)

Hon. Bill Jahn, Big Bear Lake

District 11
(Via Teleconference-Non Participation)

Members Not Present

Hon. Glen Becerra, Simi Valley

District 46 (Via Teleconference)

Hon. Greg Pettis, Cathedral City

District 2 (Via Teleconference)

CALL TO ORDER

Hon. Alan Wapner, Chair, called the meeting to order at 2:35 p.m.

ROLL CALL

A formal roll call was taken and it was determined that a quorum was present.

PUBLIC COMMENT PERIOD

None.

REVIEW and PRIORITIZE AGENDA ITEMS

There was no reprioritization of agenda items.

Audit Committee
of the
Southern California Association of Governments

May 9, 2017

Minutes

CONSENT CALENDAR

Approval Items

1. Minutes of the March 29, 2017 Meeting

A MOTION was made (Finlay) and SECONDED (Viegas-Walker) to approve the Consent Calendar Approval Items. The motion was passed by the following roll call vote:

AYES: Wapner, Finlay, Martinez, Viegas-Walker, Wilson (5).
NOES: None (0).
ABSTAIN: None (0).

ACTION ITEM

2. Fiscal Year (FY) 2016-17 External Auditor Selection

Prior to the introduction of Mr. Roger Alfaro, Partner, Vavrinek, Trine, Day & Co., LLP, (VTD) SCAG's outside independent auditors, Darin Chidsey, COO, provided background on the recruitment process to replace Richard Howard, who recently retired as SCAG's Internal Auditor. He then announced that Joshua Margraf started his new role as SCAG's, Internal Auditor.

After the announcement, Joshua Margraf, Internal Auditor introduced Mr. Roger Alfaro, a partner at VTD.

Mr. Alfaro provided a presentation of VTD's work plan for SCAG's FY 2016-2017 financial audit. He described the audit planning and risk assessment process. Mr. Alfaro provided an explanation of the full scope of audit services, which included some of the audit planning services below:

- Internal Control Evaluation and Testing;
- Preliminary Risk Assessment and Fraud Inquiries;
- Substantive Testing of Financial Audit Statements, Expenditure Reporting, Procurement Testing, Payroll, IT and Budget Testing and expressing an opinion thereof;
- Testing on Compliance and Internal Controls Required by Generally Accepted Governmental Auditing Standards (GAGAS); Reporting on Schedule of Expenditure of Federal Awards and on Compliance as required by the Single Audit Act;
- Preparation of the draft Comprehensive Annual Financial Report (CAFR);
- Review and confirm contingencies with legal counsel.

Mr. Alfaro discussed the proposed audit time-line stating that preliminary audit fieldwork would begin on May 22, 2017, and the final fieldwork to start in September/October, with audit results and findings to be presented to the Audit Committee in November/December 2017.

Audit Committee
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Minutes

Mr. Alfaro responded to comments and questions expressed by Committee members, including if there would be a review of the prior year audit, the qualifications of the audit team, the process and standards on the requirement for issuing an opinion on internal controls, and questions concerning IT/vulnerability testing of SCAG's internal systems.

Mr. Alfaro concluded his presentation by asking the Committee to provide any additional audit requests or concerns to him directly using the contact information provided on the presentation.

A MOTION was made (Viegas-Walker) and SECONDED (Finlay) to approve staff's recommendation. The motion was passed by the following roll call vote:

AYES: Wapner, Finlay, Martinez, Viegas-Walker, Wilson (5).
NOES: None (0).
ABSTAIN: None (0).

INFORMATION ITEMS

3. IT Initiative – Physical Controls

Joshua Margraf, Internal Auditor, provided an overview and background information on a review of SCAG's IT Division, in particular, the review of the physical and environmental controls in place for SCAG's IT assets.

Mr. Margraf provided information concerning his review of the controls at the collocation data center, located in Las Vegas Nevada. He noted that observed the controls in place at the collocation center, but did not test them given that they are under the purview of the company that owns and operates the center. However, he did compare the controls in place to industry control practices and found that they correspond. In addition, he reviewed an audit report on the centers controls completed by a third-party auditor, which found the controls at the center to effective.

Staff responded on the comments and questions expressed by the Committee members, including who has permissions or access to the computer network equipment located at the collocation data center. Ms. Kirschbaum, Chief Information Officer (CIO) noted that SCAG plans to contract for a second collocation data center in Orange County, thereby further reducing the amount of IT equipment that will located at SCAG offices. She also indicated that SCAG's office space will have minimal IT equipment. Committee members suggested that Internal Audit review the IT controls, including security following the move to the new office space.

Mr. Margraf concluded his report noting the internal audit's recommendation which discusses the mitigated risks to IT assets and the facilities move to the secondary data center.

The full report was included in the agenda packet.

The Committee thanked staff for their efforts in providing a thorough report.

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Minutes

4. Internal Audit Status Report

Joshua Margraf, Internal Auditor, provided a brief overview of the Internal Audit Status Report. He provided an update and commented on the incident reports obtained through the Ethics Hotline, which is managed by Lighthouse Services, a third party servicer. Due to the nature of the anonymous submissions, Mr. Margraf provided a general summary of the open incidents, which are all in the preliminary phase.

Joann Africa, Chief Counsel, provided additional background information on the process for handling the incident reports submitted through the Ethics Hotline. She noted that the nature of the incident reports vary greatly and most instances, additional information is being requested of the anonymous reporter, via Lighthouse Services. Ms. Africa also noted that after preliminary fact-finding is conducted, additional steps may be necessary to determine whether a full investigation is warranted.

Darin Chidsey, COO, stated that because this is a new program, he plans to meet with staff to develop more formalized guidelines and standards regarding how to handle reports made through the Ethics Hotline. He noted that an update on the new internal processes will be presented at the next meeting.

After discussion, the Committee also asked staff to provide an update of the Ethics Hotline incidents at the next Audit Committee meeting; and asked if the reports could contain more clarity or more specificity on the nature of the violations or complaints.

STAFF REPORT

None presented.

FUTURE AGENDA ITEMS

Internal Audit WorkPlan
Ethics Hotline Update

ANNOUNCEMENTS

Hasan Ikhata, Executive Director and the Committee thanked Hon. Alan Wapner for his service in chairing the Audit Committee meetings for the past year. He noted that Hon. Bill Jahn, 2nd Vice-Chair, will be the new Chair of the Audit Committee for Fiscal Year 2018.

ADJOURNMENT

Hon. Alan Wapner, Chair, adjourned the meeting at 3:30 p.m. The next meeting of the Audit Committee will be held on Tuesday, August 8, 2017 at 2:30 p.m.

Minutes Approved by:

Joshua Margraf, Internal Auditor

REPORT

DATE: September 12, 2017
TO: Audit Committee
FROM: Josh Margraf, Internal Auditor, (213) 236-1890, margraf@scag.ca.gov
SUBJECT: Ethics Hotline Update

RECOMMENDED ACTION:

For Information Only – No Action Required.

EXECUTIVE SUMMARY:

Reports submitted through the new Ethics Hotline cases have slowed. Staff continue to monitor reports received, as well as investigate and close reports as appropriate. In addition, SCAG staff is determining how to best update the Ethics Policy to incorporate a more detailed process for addressing reports submitted through the new Ethics Hotline.

STRATEGIC PLAN:

This item supports SCAG’s Strategic Plan, Goal 3 – Enhance the Agency’s Long Term Financial Stability and Fiscal Management.

BACKGROUND:

To help ensure SCAG’s work is carried out in accordance with SCAG policies, professional standards, and in an ethical manner, SCAG has maintained an internally managed ethics hotline for individuals to report any violations of those policies or standards. In an effort to ensure no perceived barriers exist for reporting violations, and to set up a formal case recording and management system, SCAG selected Lighthouse Services—an independent third party consultant—to operate and manage the Ethics Hotline. The new Ethics Hotline began operating February 1, 2017.

When SCAG receives a report through the Ethics Hotline, the report is identified with a case number as part of the Ethic Hotline’s case management system. SCAG performs a preliminary review of each case. SCAG has typically asked follow-up questions or requested additional information from the reporter, because many reported cases have lacked specificity. Reporters can receive notification of, and respond to, any SCAG questions or requests for information anonymously through the case management system. SCAG has provided reporters thirty (30) calendar days to respond to any requests. In most cases, reporters have not responded to questions or provided requested follow-up information.

HOTLINE CASE UPDATE:

Since the last Audit Committee meeting on May 9, 2017, SCAG has received four additional reports through the Ethics Hotline. This brings the total number of cases reported via the Ethics Hotline to 15, with one report being a duplicate. SCAG has reviewed all of the cases, and to date, has closed six. Of the six cases closed, the Chief Counsel performed a review and investigation of pertinent issue areas, and found the reported information to be unsubstantiated. Additionally, cases were closed because insufficient information was provided, and individuals reporting a matter/issue failed to respond to requests for additional information that would have helped determine whether an in-depth investigation was warranted. The Chief Counsel continues to review and/or has investigated the remaining open cases.

ETHICS POLICY UPDATE

As part of updating its policies and procedures, SCAG staff is currently reviewing its *Ethics Policy*, which has not been updated since it was approved by the Regional Council in April 2009.¹ This includes determining how best to leverage the new Ethics Hotline. Given the lack of an update, the policy lists the prior hotline's phone number, and does not provide information on the new hotline.² Further, the *Ethics Policy* does not clearly indicate the type of issues the hotline is to address. The policy states that if an "employee becomes aware, or even suspicious, of any activity which appears to be unethical, fraudulent or in violation of [the] policy," he or she should advise his or her supervisor, department head, or Internal Audit. However, "any activity in violation of the policy" can include multiple things, such as failing to handle SCAG funds and other assets in accordance with prescribed policies, engaging in nepotism, and falsifying records, among other things.³ If SCAG wishes to use the Ethics Hotline mainly for fraud, waste, abuse, harassment, and/or other specific matters, it may want indicate such in any updates to the Ethics Policy.

In addition to reviewing the *Ethics Policy*, the Chief Counsel, Chief Operating Officer (COO), and Internal Audit have been developing potential procedures and practices related to managing reported cases from the Ethics Hotline. This has included researching other organizations' practices related to hotline reporting.⁴ Internal Audit currently forwards all reported cases to the Chief Counsel, who ultimately decides whether an investigation is warranted and necessary. One idea is that any information provided via the Ethics Hotline that does meet specific criteria, such as clear instances of fraud, waste, abuse, or harassment (or whatever criteria is eventually decided upon and identified in an updated policy) could be reviewed by an internal committee so as to decide whether an investigation is warranted. This committee could consist of the COO, Chief Counsel, Internal Auditor, and Human Resources Manager.⁵ Specific details regarding a new process will be outlined as part of the Ethics Policy update.

FISCAL IMPACT:

None

ATTACHMENT:

(1) SCAG *Ethics Policy*

¹SCAG, *Ethics Policy* (approved by Regional Council April 2, 2009).

²Internal Audit has de-activated the prior hotline's ability to record voice-mail (i.e. individuals cannot leave a message). Individuals calling the prior hotline are directed to the new Ethics Hotline. The prior hotline did not allow for individuals to make reports via e-mail or website.

³Sections nine through 11 of the current *Ethics Policy* provide information on activities and practices that SCAG staff should adhere to.

⁴These organizations include Orange County Transportation Authority (OCTA), the City of San Diego, and the San Diego Association of Governments (SANDAG), among others.

⁵In cases where one of these committee members may be the subject of a reported case, another party would be consulted in deciding whether an investigation is warranted.

SCAG ETHICS POLICY

Approved by Regional Council - April 2, 2009

Section 1 Purpose.

The Southern California Association of Governments (SCAG) is a public agency that shall conduct its business with integrity in an honest and ethical manner. This Ethics Policy (Policy) describes the minimum conduct of work expected of all SCAG employees. SCAG expects that employees will perform their duties conscientiously, honestly, and in accordance with the best interests of SCAG. This Policy may include subjects that are addressed in other SCAG rules and policies. In such cases, the respective rule or policy is referenced in order for the reader to obtain additional information regarding the particular subject matter. All referenced rules and policies are available to SCAG employees via the SCAG Intranet under "Policies & Procedures."

Section 2 General Policy.

- A. It is the policy of SCAG that all employees must, at all times, comply with this Policy and all applicable laws and regulations.
- B. All business conduct shall be in compliance with this Policy, all applicable laws and regulations, and the exercise of good judgment based upon SCAG's values and goals.
- C. SCAG will not condone any employee who violates this Policy or any applicable law or regulation, or otherwise engages in unethical business dealings. This includes payment in consideration of illegal acts, indirect compensation, kickbacks and bribery.
- D. Employees who violate this Policy may be subject to disciplinary action up to and including termination and/or criminal prosecution.

Section 3 Scope.

This Policy is applicable to all SCAG employees, current and new hires. All employees shall receive a copy of this Policy and shall acknowledge receipt of this Policy in writing as part of new employee orientation and annually.

Section 4 Responsibilities.

- A. ***Employees***
Every employee is responsible for reading and obtaining an understanding of this Policy. Employees uncertain about the application or interpretation of the

contents of this Policy should obtain clarification from their immediate supervisor, SCAG's Internal Auditor or any department head.

B. *Managers*

All Managers are responsible for discussing the contents of this Policy with their employees, as needed. Any questions regarding this Policy should be addressed to the appropriate Manager. Any Manager who is informed by an employee of a violation, or potential violation, of this Policy is required to report the matter to the Internal Auditor.

C. *Directors*

All Directors are responsible for knowing the contents of this Policy and are required to be prepared to competently address any concerns or questions raised by any employee. Any Director who is informed by an employee of a violation, or potential violation, of this Policy is required to report the matter to the Internal Auditor.

D. *Human Resources Department*

The Human Resources Department is responsible for posting this Policy on the SCAG Intranet and ensuring written acknowledgment of the Policy by all employees. In consultation with the Legal Services Group, it is also responsible for updating this Policy when appropriate.

E. *Internal Auditor*

SCAG's Internal Auditor is responsible for monitoring compliance of this Policy through internal audits that are regularly performed.

F. *Chief Counsel*

SCAG's Chief Counsel will conduct an investigation, or authorize the conduct of an investigation, of alleged violations of this Policy as reported by the Internal Auditor. If the alleged violation involves the Legal Services Group, the Internal Auditor shall report the matter to the Executive Director. The Executive Director, or his/her designee, shall conduct the investigation, or otherwise authorize the conduct of an investigation.

Section 5 Professionalism.

A. It is up to each SCAG employee to maintain a professional, safe and productive work environment. SCAG employees shall treat each other professionally and with courtesy at all times. Differences of opinion on work issues should be expressed in a constructive manner that promotes sharing of ideas and effective teamwork to resolve problems to meet the challenges of SCAG.

B. SCAG employees should be diligent in taking personal responsibility for their professional behavior by adhering to the following standards:

(1) Act with courtesy, integrity, competence, and respect in an ethical manner when dealing with the public and fellow employees. Drinking of alcoholic

beverages or use of controlled substances, gambling, fighting, and similar unprofessional conduct are prohibited on SCAG premises. *See also, SCAG Personnel Rules, Rule 14.8 (Alcohol and Drug Abuse Policy) and Rule 14.14 (Workplace Violence Policy).*

- (2) Be aware of and comply with applicable statutes, ordinances, regulations, and other legal requirements.
- (3) Do not engage in sexual harassment, or conduct oneself in a way that could be construed as such. (For example, by using inappropriate language, keeping or posting inappropriate materials in the work area, or accessing inappropriate materials on the computer.) *See also, SCAG Personnel Rules, Rule 12.0 (Equal Employment Opportunity and Anti-Harassment Policies) and Rule 14.6 (Computer, Electronic Mail and Internet Policy).*

Section 6 SCAG Funds and Other Assets.

- A. Employees who have access to SCAG's funds in any form must follow the prescribed procedures for recording, handling, and protecting money as detailed in SCAG's instructional manuals or other explanatory materials, or both. SCAG imposes strict standards to prevent fraud and dishonesty. *See also, SCAG Accounting Manual, Sections 5.11 (Petty Cash), 5.12 (Vending Machine Receipts) and 5.4.6 (Cash Receipts).*
- B. When an employee's position requires the spending of SCAG's funds or incurring any reimbursable personal expenses, that individual must use good judgment on the behalf of SCAG to ensure that fair value is received for any expenditure. *See also, SCAG Travel Policy and Guidelines.*
- C. SCAG's funds and all other assets of SCAG are for SCAG's purposes and not for personal use. This includes the personal use of SCAG's assets, such as vehicles and computers. *See also, SCAG Personnel Rules, Rule 13.7 (Use of SCAG Facilities or Property) and SCAG Vehicle Usage Policy.*

Section 7 Conflict of Interest.

- A. SCAG employees shall not engage in any activity or enterprise for compensation which is inconsistent, incompatible, in conflict with or inimical to his or her duties at SCAG. A conflict of interest, or at least an appearance of a conflict of interest, exists when the interest, investments, outside employment or personal enterprises of the employee or a member of his or her immediate family could compromise the employee's duty of loyalty, or otherwise conflict with, or appear to conflict with his or her job performance, objectivity, impartiality or ability to make fair business decisions in the best interest of SCAG. Employees should avoid investing in or acquiring a financial interest in any business organization that has a contractual relationship with SCAG, or that provides goods or services, or both to SCAG, if such investment or interest could influence their decisions in the performance of their duties on behalf of SCAG. If an employee senses that a course of action he/she has pursued, is presently pursuing, or is contemplating pursuing may involve them in a conflict of interest with SCAG, they should immediately communicate all the facts to their immediate supervisor. *See also,*

SCAG Conflicts of Interest Policy and SCAG Personnel Rules, Rule 13.5 (Federal Contracts) and Rule 13.6 (Disqualification of Former SCAG Employees).

- B. Employees must not use their position or the knowledge gained as a result of their position for private or personal gain or advantage. Such action would be in conflict with the interests of SCAG. *See also, SCAG Personnel Rules, Rule 13.2 (Private Gain or Advantage).*

- C. ***Outside Activities and Employment***

All employees share a responsibility for SCAG's good public relations, especially at the community level. An employee's ability to help with charitable, educational, and civic activities brings credit to SCAG and is encouraged. Employees must, however, avoid acquiring any business interest or participating in any other activity outside of SCAG that would (1) create excessive demand upon their time and attention, thus depriving SCAG of their best efforts on the job; and/or (2) create a conflict of interest, an obligation, interest, or distraction that may interfere with their ability to make independent job-related decisions that are in the best interests of SCAG. *See also, SCAG Personnel Rules, Rule 13.1 (Outside Employment) and Rule 13.2 (Political Activity).*

- D. ***Gifts, Favors or Preferential Treatment; Travel Payments***

Employees must not accept or solicit gifts, personal favors, or preferential treatment that could influence business decisions in favor of any person or organization with whom or with which SCAG has, or is likely to have, business dealings. The payment or reimbursement for travel, lodging and meals may be considered a gift for purposes of this Policy, unless it is paid by SCAG for business travel. *See also, SCAG Personnel Rules, Rule 13.4 (Gifts and Gratuities) and SCAG Travel and Policy Guidelines.*

- E. ***Restrictions upon Leaving SCAG***

Former employees, for a period of one (1) year after their employment with SCAG has ceased, are prohibited from representing any person or entity (other than SCAG) in connection with any legal proceeding. Former employees, for a period of one (1) year after their employment with SCAG has ceased, are also prohibited from participating in bidding to SCAG, participating in consultant work funded by or through SCAG, or otherwise using their former SCAG position to influence any decision relating a SCAG contract. *See also, SCAG Personnel Rules, Rule 13.6 (Disqualification of Former SCAG Employees).*

- F. ***Conflict of Interest Code***

SCAG has adopted a Conflict of Interest Code (Code), a copy of which is attached hereto as Appendix "A." The provisions of this Code are additional to California Government Code Section 87100 and the state laws pertaining to conflicts of interest. Each person holding a designated position listed in the Code shall file annually a Statement of Economic Interests (Form 700) disclosing his/her interest in investments, business positions, real property and income designated as reportable under the category to which his/her position is assigned and otherwise comply with the Code. Although SCAG's Officer of Regional Council Support oversees this process, it is the responsibility of each person holding a designated position as stipulated in the Code to comply with this filing requirement.

Section 8 Nepotism; Personal Relationships.

Employees shall adhere to SCAG's rules regarding nepotism. Romantic or sexual relationships between employees where one individual has control over the other's conditions of employment (e.g. supervisor and subordinate staff) are discouraged and should be avoided. *See also, SCAG Personnel Rules, Rule 14.3 (Nepotism Policy) and Rule 12.2.3 (Definition of 'Environmental' Harassment).*

Section 9 SCAG Records and Communications.

Accurate and reliable records of many kinds are necessary to manage the affairs of SCAG and to meet SCAG's legal and financial obligations. SCAG's books and records must reflect in an accurate and timely manner all business transactions. The employees responsible for accounting and record keeping must fully disclose and record all assets, liabilities, or both, and must exercise diligence in enforcing these requirements. Employees must not make any false record or engage in any false communication, whether internal or external, including but not limited to, false expense, attendance, production, financial, or other misleading representations. *See also, SCAG Accounting Manual, Section 1.91 (Financial Records and Retention).*

All employees must make every effort to achieve complete, accurate, and timely communications, responding promptly and courteously to all proper requests for information and to all complaints.

Section 10 Privacy and Confidentiality.

- A. When handling financial and personal information about SCAG employees, elected officials or others with whom SCAG has dealings, observe the following principles:
- (1) Collect, use, and retain only the personal information necessary for SCAG's business. Whenever possible, obtain any relevant information directly from the person concerned. Use only reputable and reliable sources to supplement this information.
 - (2) Retain information only for as long as necessary or as required by law. Protect the physical security of this information.
 - (3) Limit internal access of personal information to those with a legitimate business reason for seeking that information.
 - (4) Safeguard proprietary and confidential information except when disclosure is authorized or required by law.

See also, SCAG Personnel Rules, Rule 14.13(Ownership of Intellectual Property and Non-Disclosure of Confidential Information).

Section 11 Whistleblower Protection; Reporting of Unethical or Fraudulent Activity.

- A. SCAG is committed to fair treatment of all its employees and recognizes its responsibility under state and federal law to protect from punishment and harassment any person who reports a potential ethics issue or a violation of law, whether or not the allegation is found to have merit.
- B. If a SCAG employee becomes aware, or even suspicious, of any activity which appears to be unethical, fraudulent or in violation of this Policy, he/she should immediately advise their immediate supervisor, any department head or SCAG's Internal Auditor. An employee may also call SCAG's Ethics Hotline at (213) 236-1979 or extension 979. An anonymous message may be left on the Ethics Hotline voicemail system. SCAG's Internal Auditor shall be responsible for monitoring messages left on the Ethics Hotline.
- C. Employees will not make malicious or fabricated allegations of violations of this Policy. Employees will also not retaliate in any way against any other employee who brings forth an allegation of violation of this Policy. Any employee who makes a malicious or fabricated allegation, or who retaliates against an employee for bringing forward an allegation, may be subject to disciplinary action.

Section 12 Investigation; Corrective/Disciplinary Action.

- A. SCAG's Chief Counsel will conduct, or authorize the conduct of, an investigation of an allegation of violations of this Policy. The investigation will be conducted in a manner that ensures, to the extent feasible, the privacy of the parties involved.
- B. The Chief Counsel shall prepare a written report as a result of the investigation for the Executive Director. The Executive Director will determine whether the Policy has been violated, and communicate the conclusion and any required corrective action to the alleged violator. If discipline is required, disciplinary action shall be decided in accordance with SCAG's Personnel Rules.
- C. If the investigation involves the Executive Director, the written report by the Chief Counsel shall be provided to SCAG's President and other Officers. The SCAG President and other Officers will determine whether the Policy has been violated, and communicate the conclusion and any required corrective action to the Executive Director. If discipline is required, disciplinary action shall be decided in accordance with SCAG's Personnel Rules.

REPORT

DATE: September 12, 2017

TO: Audit Committee

FROM: Josh Margraf, Internal Auditor, (213) 236-1890, margraf@scag.ca.gov

SUBJECT: Contract Close-out Review

RECOMMENDED ACTION:

For Information Only – No Action Required.

EXECUTIVE SUMMARY:

Internal Audit reviewed SCAG’s current contract close-out practices and found areas for improvement.

STRATEGIC PLAN:

This item supports SCAG’s Strategic Plan, Goal 3 - Enhance the Agency’s Long Term Financial Stability and Fiscal Management.

INTRODUCTION:

SCAG has its financial statements audited every fiscal year (FY) by an independent certified public accounting (CPA) firm. One recommendation stemming from SCAG’s FY 2015 financial audit is that Internal Audit should perform a post contract closure review. This includes practices related to contract close-out. Given that contract close-out is related to project management, this review can help provide assurance that SCAG close-out practices are effective and consistent with SCAG policies and procedures, as well as identify potential issues related to project management, which had been previously identified as a high risk area by the Audit Committee and management team.¹

SCOPE AND METHODOLOGY:

I focused on SCAG’s contract close-out practices, including how SCAG documents contract completion. The objectives include (1) independently identifying and confirming contract deliverables, and (2) determining the extent to which SCAG’s contract close-out practices are followed. To independently identify and confirm contract deliverables, I reviewed contracts and any associated contract amendments, and then compared deliverables as stated in those documents with contract file documentation. I specifically referred to SCAG’s contract close-out form, because it seems to be the key piece of documentation used to certify contract completion (see attachment 1 for a current copy of SCAG’s contract close-out form). I contacted Caltrans representatives to see what information the close-out form should contain. To determine whether contract practices are followed, I consulted pertinent SCAG policies and procedures, including SCAG’s *Procurement Policy & Procedures Manual* and *Project Management Manual*.² I discussed close-out practices with staff in

¹I previously sent SCAG’s Audit Committee and management team a risk assessment input form that highlighted key agency risk areas, and requested that the areas be ranked by degree of risk. Project management rated the second highest in terms of risk (IT was rated the highest).

²SCAG, *Procurement Policy & Procedures Manual*, (Revised Nov. 1, 2014), and *Project Management Manual*. The *Project Management Manual* did not have a date on the document.

REPORT

the Accounting, Budgets and Grants, and Contracts departments, as well as with IT staff and project managers. I also reviewed contract file documentation, such as purchase orders and funding summaries, to determine the final cost for a contract, and whether grant-match requirements were met.³ Although the focus was on contract close-out practices rather than other project management practices, such as contract monitoring and consultant performance evaluation, some of the findings relate to those practices. I intend to review other project management practices in future work.

The audit universe is based on a list of contracts from FY 2014, 2015, and 2016 that SCAG considers closed.⁴ That is, SCAG has received a final deliverable and made final payment. The years in the sample are relatively recent, but old enough so that a number of contracts would have been closed. I stratified the contract list into two groups: contracts costing more than \$250,000 (above SCAG’s preaward audit threshold) and those costing less than \$250,000. My rationale for stratifying the contracts was to help ensure adequate representation among both groups so as to better ascertain whether close-out practices have been consistently and adequately applied to all contracts regardless of size, and whether the contract documentation showed evidence of any audit work for those above the audit threshold. After stratifying the list into two groups, I randomly selected three contracts from each group.⁵ I initially used a smaller sample size because I wanted to see how long it would take to review each contract. It took longer than anticipated, so I did not increase the sample size. However, I believe the sample is adequate at highlighting close-out practices as well as identifying potential areas of risk and/or improvement. Table 1 identifies the selected contracts.

Table 1: Contracts Selected for Review

< \$250,000			
Contract	Title	Amount	End Date
15-001-B60	City of Seal Beach Climate Action Plan	\$129,427	12/30/2016
15-001-B68	City of Huntington Beach - NEV Transportation Plan	\$82,887	12/31/2016
15-036-C1	Vehicle probe data purchase for trucks	\$72,000	9/30/2015
> \$250,000			
Contract	Title	Amount	End Date
14-014-C1	Goods Movement Border Crossing Study – Phase II	\$337,676	6/30/2016
14-017-C1	Riverside Reconnects, Streetcar Transit Corridor Feasibility Study	\$299,885	6/30/2016
15-004-C1	RTP-SCS PEIR	\$651,741	12/31/2016

Source: SCAG Contracts Department

I performed this review from June 2017 through September 2017 in accordance with generally accepted government auditing standards (GAGAS). Those standards require that the auditor obtain sufficient and appropriate evidence to provide a reasonable basis for the findings and conclusions based on the objectives. I believe the evidence obtained provides a reasonable basis for the findings and conclusions.

³In this case, grant-match is referring to funding match requirements associated with grant funding. Some federal grants require a local funding match when used. For example, when using Federal Transit Administration (FTA) grant funding for a contract, SCAG is required to contribute a minimum of 11.47 percent of the total award using non-federal sources of funding.

⁴The list of contracts was pulled from a document maintained by the Contracts department, which is titled “Contract Status Report.” I used the list dated June 19, 2017 to select the sample.

⁵The total amount of the contracts under review is about \$1,573,616, which is approximately 9 percent of all FY 2014, 2015, and 2016 contracts that have been closed (the total amount for the contracts identified as closed is \$16,662,987).



BACKGROUND:

SCAG describes proposed transportation planning activities, to include those activities and studies required by federal and state law and authorized by the Regional Council, in a core planning document. This core document is the Overall Work Program (OWP), prepared annually by SCAG.⁶ SCAG manages and completes activities listed in the OWP through multiple projects. Each project is managed by SCAG staff with the aim to achieve project objectives, which, in turn, helps complete OWP activities. SCAG relies on the efforts of both staff and consultants to complete the projects listed in the OWP. Typically, OWP projects result in work products, such as regional transit studies, updates to prior studies, and transportation data analyses, among other things. SCAG reports on these projects to grantors to help demonstrate how the agency uses its funding. This includes providing copies of work products.

In some cases, SCAG work products are the culmination of staff effort in conjunction with consultant work. For instance, SCAG may hire a consultant to provide analyses of transit data that feeds into a SCAG-produced report. Other times, a work product may be based solely on consultant work carried out via contract. Consultants are one tool SCAG uses to help achieve activities outlined in the OWP. As per SCAG's *Project Management Manual*, project managers are responsible for monitoring contracts, to include reviewing invoices, initiating contract amendments as necessary, and obtaining and reviewing interim work products, among other things.⁷ Project managers are also responsible for receiving all deliverables, indicating that a contract is fully complete, and accepting a contract's final deliverable.⁸

Although related, SCAG work products are distinct from contract deliverables. A consultant may be used to help SCAG complete a work product, but the consultant's work is predicated on a contract scope of work. Each contract has its own scope of work, and can be comprised of multiple tasks, with specific deliverables tied to each task. A contract is considered ready for close-out after the project manager certifies completion and acceptance of the final deliverable, and SCAG releases final payment to the consultant. These actions are recorded on the contract close-out form.

The Contracts department is responsible for maintaining contract files, which include documentation such as consultant proposals, the contract itself, contract amendments, any pre-award audit work, and purchase orders among other things (see attachment II for section 4 of SCAG's *Procurement Policy & Procedures Manual*, specifically, section 4.2.B., which lists required documentation for contract files). Although not specifically listed as part of required contract file documentation, contract close-out forms are included in contract files.

The Budgets and Grants department receives completed work products for storage and transfer to grantors such as Caltrans. Project managers are responsible for providing the Budget and Grants staff with copies of final work products. Budget and Grants staff noted that the items they received are products stemming from projects listed in the OWP, and that these are not necessarily all of the deliverables associated with a contract.

⁶The OWP is fundamentally a statement of proposed work and estimated costs that tie specific transportation planning activities to specific available funding sources. See <http://www.scag.ca.gov/about/Pages/Overall%20Work%20Program.aspx> for a copy of SCAG's most recent OWP.

⁷Table 1 of SCAG's *Project Management Manual*.

⁸Sections 4.1 and 8.4 of SCAG's *Procurement Policy & Procedures Manual*.

SCAG funds contracts using a variety of sources, including grants. Grant funding can entail certain requirements, such as a grant-match (i.e. local match). Some federal grants require a mandatory local match, which is a specific amount of a non-federal funds, including cash and/or in-kind contributions.⁹ For example, Federal Highway Administration (FHWA) grant funds require a match of 11.47 percent of the total award. When using FHWA funding for a contract, SCAG contributes 11.47 percent the contract cost using a local funding source (such as a non-federal grant) or staff effort, while FHWA funding accounts for 88.53 percent of the cost.

CONFIRMATION OF CONTRACT DELIVERABLES:

I had difficulty independently confirming contract deliverables for each of the six contracts in the sample. Contract files do not contain contract deliverables or provide information as to where they are located. Although the contract close-out form (discussed in more detail below) is a key piece of documentation used to document contract completion, it does not provide enough information to locate and confirm deliverables.¹⁰

Because I could not independently confirm contract deliverables via documentation in the contract file, I consulted the work products maintained by the Budget and Grants department for purposes of administering the OWP. Although these work products may not have contained all of a contract's deliverables, I thought they may contain some of the deliverables for the contracts in the sample so as to confirm some of them. I located some contract deliverables for four of the contracts in the sample, but could not locate all deliverables for each of the contracts. For instance, I found three products related to contract 14-017-C1, but the contract outlined 22 deliverables across three tasks. The contract close-out form indicated that a "final report" was completed as the result of the contract, but the products I found were marked as "drafts." In another instance, I found a work product related to contract 15-001-B68 that was categorized as a final report, but upon opening the document, it was a grant application (the contract close-out form had indicated the contract resulted in a report). Budget and Grants staff mentioned that they do not validate work products received because it is assumed that the respective project managers have already verified and validated the work products. I could not locate any work products for two contracts in the sample. For one—contract 15-036-C1—SCAG purchased data that informed other work products (the data were the contract deliverables). As such, the data were likely not included with the work products. In the case of contract 15-001-B60, no work products have yet been submitted to the Budget and Grants department. Although the contract close-out form for contract 15-001-B60 shows contract completion as of February 2017, Budget and Grants staff explained that project managers are not required to submit work products until about August or September each fiscal year. They noted that since the contract was completed in FY 2017, the final work product had likely not yet been submitted at the time of this review.

Ultimately I had to contact project managers to request contract deliverables. However, I found that project managers use different methods to monitor and track consultant work on contracts, and that there does not seem to be a straightforward way to cross-reference consultant work with contract deliverables. In some cases, project managers did not have contract deliverables on hand. Some project managers indicated that because

⁹In-kind contributions refer to services rather the cash.

¹⁰Confirmation of deliverables helps verify their existence. It also helps provide insight as to consultant performance on a contract (e.g. Were deliverables missing? Were they submitted in a timely manner?). It is an initial step towards validating whether contract deliverables were produced in accordance with contract terms and conditions. For the purposes of this review, the focus was on contract close-out practices. Other project management practices will be addressed in subsequent reviews.

contract deliverables feed into a final deliverable, which informs a work product in the OWP, completion of the final work product provides indication that contract deliverables have been received, and the contract was completed. Nevertheless, completion of a work product does not provide full insight into how a contract is managed, or even if all contract deliverables have been received. For example, regarding contract 15-001-B60, contract file documentation and the contract close-out form show a total contract cost of \$129,427 with the consultant submitting draft and final reports as deliverables. However, upon checking consultant progress reports (these are submitted with consultant invoices and are not included in the contract file), it seems that the consultant did not initiate or complete all contract tasks and deliverables, and SCAG spent approximately \$69,902 or about 53 percent of the total authorized amount. The project manager confirmed this, and indicated that the consultant did not complete all of the tasks in the contract, so SCAG only paid for the work completed (i.e., \$69,902), which was less than the contract amount (i.e., \$129,427). However, I would not have discovered this by reviewing only the contract file and contract close-out form. Having to request contract deliverables from project managers does not allow for independent confirmation of contract deliverables.

Contract Close-out Form

SCAG's contract close-out form is used to certify contract completion. It seems to be the primary piece of documentation in the contract file showing approval of contract deliverables. The contract file for each contract in the sample contained a completed close-out form. However, upon reviewing the close-out forms, information on the form seems lacking in that it did not provide a detailed description of contract deliverables, indicate the location of deliverables, or identify the total spent on each contract. I sought clarification from Caltrans regarding whether the close-out form, in its current incarnation, satisfies Caltrans requirements, and what types of information should be included on the close-out form. Caltrans representatives provided some criteria that can be consulted in developing or making changes to close-out practices, including the contract close-out form.¹¹ They noted that SCAG has flexibility in how it designs its close-out form, but that SCAG should be evaluating consultant performance with regard to carrying out a contract, and that performance evaluations should be documented.

Below are some key areas of improvement for the contract close-out form that could provide additional transparency as to contract deliverables, overall costs, and consultant performance. These areas take into account the criteria provided by Caltrans.

- **Clarification of Contract Deliverables:** The contract close-out form does not specifically require a detailed list of contract deliverables. Rather it requests a project manager to indicate whether a project was successfully completed and final products received and approved. Some staff have viewed this as relating to work products in the OWP rather than contract deliverables. For only one contract in the sample did information on the contract close-out form match contract deliverables. This was for contract 15-036-C1, which was for a data purchase.¹² However, I could not locate the deliverables for independent confirmation

¹¹These criteria include the [Caltrans Local Assistance Procedures Manual \(LAPM\) – Chapter 17](#) and [California Public Contract Code Sections 10335–10381](#). Chapter 17 of the LAPM seems to deal specifically with construction and architecture and engineering (A&E) contracts, which SCAG does not typically engage in.

¹²The contract contained four tasks, with each task deliverable being a type of data. The close-out form indicated that SCAG received the data in September and the project was completed then. However, upon inspecting the consultant's final progress report, the consultant was still performing work on the contract as of November.

based on information on the close-out form.¹³ Requiring the name of contract deliverables, the contract task deliverables are associated with, the date deliverables were received, and the location of deliverables (e.g. a shared folder) would enhance transparency as well as allow for a more straightforward way to independently confirm contract deliverables.

- **Identification of Consultant Performance:** The contract close-out form requires project managers to indicate whether a project was successfully completed by checking a box on the form. Therefore, none of the close-out forms for contracts in the sample contained specific information regarding consultant performance. Also, the focus of the close-out form seems to be on project completion rather than contract performance. As per criteria suggested by Caltrans, a performance evaluation is required to identify whether the consultant completed all work and services in the contract, whether the consultant fulfilled all contract requirements, if the consultant met quality standards as outlined in the contract, and reasons for any cost overruns or delays, among other things. Finally, four of the contracts in the sample contained special data requirements and guidelines, but it is not clear if and how the consultants met those requirements.¹⁴ Requiring an evaluation of consultant performance would allow SCAG to identify any lessons-learned in using a consultant's services as well as if SCAG should continue to use that consultant's services.
- **Identification of Funding Source:** The contract close-out form does not list the funding source for the contract. Requiring identification of funding source may be helpful if multiple funding sources are used or if the funding type switches, because there may specific requirements tied to a funding source, including grant-match requirements.
- **Identification of Total Spent:** The contract close-out form provides information on total contract amount authorized, but does not provide information on actual amounts spent. Only one contract in the sample—contract 15-004-C1—had an associated close-out form that indicated the total amount spent. The close-out form for the remaining five contracts only listed the amount of the final check sent to the consultant. For five of the contracts in the sample, the total amounts spent were very close to the total amount authorized.¹⁵ In one instance—contract 15-001-B60—the amount spent was considerably less than the amount authorized. The total contract amount was \$129,427 versus \$69,902 spent. However, total amount spent was not apparent based on the information provided on the close-out form. I had to access consultant invoices maintained by the Accounting department. Requiring total amount spent versus total authorized could help identify any unspent funds.

CONTRACT CLOSE-OUT PRACTICES:

SCAG close-out practices seem to be generally followed. However, in reviewing whether the practices were followed with regard to the contracts in the sample, some limitations became apparent. These limitations make it difficult to independently confirm contract deliverables or gain information on consultant performance.

¹³The project manager provided me access to the deliverables upon request.

¹⁴These requirements are listed in various contract appendices. The contracts in the sample that contained these requirements include 14-014-C1, 14-017-C1, 15-001-B68, and 15-004-C1.

¹⁵The total spent on the six contracts in the sample was approximately \$1,511,484, or \$62,132 less than total amount of the contracts in the sample.

Contract Practices Followed

Much of the contract close-out practices are related to ensuring the contract file contains proper documentation, and that a close-out form is completed. All contract files for the contracts in the sample contained documentation as required by SCAG's *Procurement Policy & Procedures Manual*. These include contract amendments identifying changes in scope, certificates of insurance for the consultants, audit documentation as applicable (in particular for contracts costing more than \$250,000), purchase orders and other authorizations, among other things. Each contract file for the sample contracts contained a completed close-out form. In addition, all the contracts in the sample were funded in accordance with grant-match requirements.¹⁶

Limitations

I noticed some limitations with SCAG's current contract close-out practices that hinder the ability to independently confirm contract deliverables as well as gain insight into consultant performance of contracts. These limitations are listed below.

- No Independent Check of Contract Deliverables: SCAG's close-out practices do not seem to have an independent check built into them. SCAG relies on project managers to certify and sign-off that contracts are completed and deliverables received, but it is unclear who provides independent verification and validation that consultant work is being performed in accordance with contract terms and conditions, and that any issues arising from a contract are being documented and addressed.
- No Delineation of Contract Deliverables and Work Products: SCAG's current close-out practices do not provide clear delineation between contract deliverables and work products. As noted above, contract deliverables are distinct from work products. Further, the contract close-out form requires a list of final products rather than contract deliverables, and there is no instruction as to how detailed the list should be.
- No Detailed Guidance on Contract Monitoring: SCAG's guidance on contract administration and project management identifies responsibilities for project managers and contract administrators, but does not provide detailed discussion or direction on how staff should be monitoring contract performance and tracking contract deliverables. Further, the current guidance does not clearly specify what information is required for contract close-out and how it shall be maintained. As a result, SCAG does not have a standardized or consistent method for tracking contract deliverables (e.g. no centralized folder or database of contract deliverables). Project managers track contract deliverables differently—some have more detailed files, while others indicated they do not track all deliverables.
- Limited Reference to Contract Deliverables in Contract File: The only documentation in the contract file that contains specific reference to contract deliverables is the contract itself and any associated contract

¹⁶Only one contract in the sample—contract 15-001-B68—did not have a required grant-match as SCAG used Transportation Development Act (TDA) funds, which do not have such criteria. Three contracts used Federal Transportation Act (FTA) funds: contract 14-014-C1, contract 14-017-C1, and contract 15-004-C1. One contract used FHWA funds: contract 15-036-C1. One contract used California Sustainable Communities Planning Grant Funds: contract 15-001-B60. I compared the funding source listed in each contract (and any amendments) with SCAG reports to grantors to see if the correct match had been applied. I also confirmed the match with Budget and Grants staff.

amendments. The contract file does not contain contract deliverables or a reference to where the deliverables are located.

- Limited Reference to Consultant Performance: The contract file does not contain specific information on consultant performance. There may be instances where an e-mail between a consultant and SCAG staff discussing performance on a contract is saved as part of the contract file documentation, but there is no specific document highlighting or summarizing consultant performance. Further, the contract close-out form only requires project managers to indicate that project was successfully completed; it does not request any specifics on consultant performance.

CONCLUSION:

Locating contract deliverables proved difficult, and I could not independently confirm all contract deliverables for the contracts in the sample of six contracts. As a result of SCAG’s current close-out practices, SCAG relies heavily on project managers to certify that contracts are complete. The current close-out practices are not conducive to independent confirmation of contract deliverables. Without the ability to independently verify and validate contract deliverables, there is limited assurance that contracts are being performed in an efficient manner with regard to the scope of work and other contract terms and conditions, as well as whether the deliverables are of quality.

RECOMMENDATION:

As SCAG updates its policies and procedures, it should consider ways to address some of the limitations associated with its current close-out practices, including how contract deliverables are to be managed and tracked. SCAG may want to consider developing a standardized method for tracking, documenting, and storing contract deliverables—so as to allow for independent confirmation—which could include updating the contract close-out form and/or providing additional details regarding the location of the deliverables in the contract files (if not the deliverables themselves).

FISCAL IMPACT:

None

ATTACHMENT:

- (1) Copy SCAG’s current Project & Contract Close-Out Form
- (2) Section 4 – “Roles and Responsibilities” of SCAG *Procurement Policy & Procedures Manual*

**SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS
PROJECT & CONTRACT CLOSE-OUT FORM**

Project Title _____	
Consultant _____	Contract No. _____
Project Manager _____	Contract Start Date _____
Contracts Admin. _____	Contract End Date _____
Total Contract Value (including amendments for increases in compensation): \$ _____	

<input type="checkbox"/>	Project Successfully Completed/Final Products Received and Approved	Date:	
List of Final Product(s) Received:			

<input type="checkbox"/>	Project Terminated	Date:	
Reason for Termination:			

Project Manager's Signature _____

Once the information above has been completed, do the following:

1. Route this form to Accounting Division for sign-off
2. Route this form to respective Contracts Administrator

ACCOUNTING SECTION USE ONLY:	SIGNATURE	DATE
Final payment issued _____	_____	_____
[Final Payment Date: _____ Check No. _____ Amount: _____ Total Contract Payments: _____]		

CONTRACTS SECTION USE ONLY:	SIGNATURE	DATE
P.O. closed in GP _____	_____	_____
Obtain "Final Report-Utilization of Disadvantaged Business Enterprises (DBE) and First-Tier Subcontractors" from Consultant _____	_____	_____
Routed to SMS for payment entry in DBE tracking system (Attach copy of the most current Contract Funding/Expenditure Summary) _____	_____	_____
Copy of close-out form and DBE form provided to Caltrans (if applicable) (Email to Jonathan Palacio (jonathan.palacio@dot.ca.gov)) _____	_____	_____

SCAG Procurement Policy & Procedures Manual

4. Roles and Responsibilities

4.1. Role of the Project Manager (PM)

A. The SCAG PM's duties include but are not limited to:

1. Developing the Scope of Work which must include:
 - Background
 - Objective/Purpose
 - Clearly defined Statement of Work to be performed
 - Deliverables
 - Schedule by task and fiscal year
2. Providing Contracts with a Cost Estimate for the project as required by the Caltrans Local Procedures Manual (July 2016) Section 10.2, Estimated Cost of Consultant Work, (pg.2) & 49 CFR Part 18, Section 18.36 (f) (1). In accordance with a policy approved on March 5, 2009 by the Regional Council (agenda item 3.1.3), this document must be kept confidential. Staff cannot disclose the project's budget to anyone outside of the Proposal Evaluation Committee.
3. Verifying funding source/amount of funds.
4. Entering the requisition into SCAG's Financial Management Information System
5. Providing Sole-Source Justification, if applicable.
6. Reviewing and signing off on the Scope of Work that goes into the Request For Proposal
7. Recommending staff for the Proposal Review Committee (PRC), as approved by the Contracts Administrator.
8. Scoring proposals and any consultant interviews.
9. Providing the Contracts Administrator information for the Cost/Price Analysis and Fair and Reasonable Determination.
10. Assisting with any negotiations with the selected consultant.
11. Providing Regional Council Agenda write-up (for contracts \$25,000 or greater - includes sole source contracts) within established time frames
12. Reviewing and signing off on the contract, as to accuracy of the description of the project and consultant services (including the scope of work), budget, and schedule.
13. Monitoring and being cognizant of project costs to ensure project remains within the allocated budget and is completed on schedule.
14. Monitoring consultant's work, progress, and expenditures.
15. Reviewing and approving consultant's invoices for payment, including the Line Item Budget or Price Sheet.
16. Requesting all contract amendments within established timeframes, including, but not limited to: Scope of Work, Schedule changes, Cost, etc.
17. Receiving all deliverables
18. Completing Project & Contract Close Out Form.
19. Providing the following for the master contract file, if required by the Caltrans Local Assistance Procedures Manual, Section 10.8 Completing the Project (Project Records):

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- Log of verbal communication with the consultant to include: the date, time, name of the person contacted, and a brief description of the conversation.
 - Any written information or correspondence considered pertinent to the consultant contract
 - Copies of deliverables.
- B. To verify that the necessary steps have been completed for a project, the PM may use the Responsibilities Matrix as a guide.
- C. The PM is not authorized to:
1. Direct the consultant to start work prior to issuance of a Notice-to-Proceed by the Contracts Administrator.
 2. Direct the consultant to perform work not included in Scope of Work.
 3. Direct the consultant to proceed with a change to the contract prior to an executed amendment.
 4. Sign the contract or any binding documents requested by the consultant. The PM may sign appropriate forms, such as non-disclosure statements and meeting minutes.
 5. Extend the time-period of the contract without an amendment to the contract.
 6. Allow the consultant to exceed the rate ceiling of any Direct Labor position classification, or allow the consultant to incur costs funded contract amount.
 7. Allow the consultant to incur costs that do not conform with the California's State Department of Personnel Administration rules, or any successors there to (SCAG's Travel Guidelines - for meals, lodging, mileage, expenses, etc.) located at <http://www.dot.ca.gov/hq/asc/travel/ch12/1consultant.htm>.

4.2. **Role of the Contracts Administrator (CA)**

- A. In accordance with Section 10.2 of the Local Assistance Procedures Manual (July 2016, pg. 4, the Contract Administrator (CA) is responsible for ensuring the quality of consultant contract products or services. The CA is appointed as soon as the need for consultant services is identified. The CA is involved throughout the development of the selection process and the contract provisions, and in the administration of the consultant's work. The CA must be a qualified local agency employee, or have staff that is qualified to ensure the consultant's work is complete, accurate, and consistent with the terms and conditions of the consultant contract.
- B. The CA's duties include but are not limited to:
1. Reviewing requisition and scope of work for completeness and accuracy.
 2. Preparing and releasing RFP, including advertising it via Planet Bids (see Section 6.6.3 F) and other professional trade publications, as well as SCAG's website.
 3. Arranging Pre-bid/proposal conferences, questions and answers (if any).
 4. Receiving, reviewing and evaluating the consultant's proposals for completeness, required documentation, and responsiveness to the RFP's requirements, identifying exceptions (as required).
 5. Arranging and leading the proposal evaluation meeting with the PRC.
 6. Determining the need for, arranging as necessary and leading a consultant interview meeting

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7. Receiving and approving Consultant Selection Memo from the PRC.
 8. Coordinating audit of selected consultant's proposal (if \$250,000 or greater, or there is reason for an audit).
 9. Completing Cost/Price Analysis and Fair and Reasonable Determination and leading negotiations (if any).
 10. Coordinating contract execution.
 11. Coordinating placement of the Board Report (RC Write up) on applicable Regional Council Agenda and completing the Procurement Summary section of the report.
 12. Leading negotiations.
 13. Issuing Notice-to-Proceed to consultant.
 14. Ensuring consultants do not exceed the rate ceiling of any Direct Labor position classification (rates may be change via amendment), or allow consultant to incur costs beyond funded contract amount.
 15. Closing out the contract file.
- C. The CA is responsible for maintaining a file for each contract with the following documents, if applicable:
1. Cost Estimate (per 49 CFR Part 18, Section 18.36 (f) (1) - In accordance with a March 5, 2009 Regional Council agenda item 3.1.3, this document must be kept confidential. Staff cannot disclose the project's budget to anyone outside of the Proposal Evaluation Committee.
 2. RFP, RFP Addendum(s) & RFP Mailing List.
 3. Copy of Questions and Answers from the Pre-Bid Conference.
 4. Original of all proposals (identify the winning proposal).
 5. Proposal Summary Memo.
 6. Debarment & Suspension Certification(s).
 7. Conflict of Interest Certification(s).
 8. Non-Disclosure Form for each PRC Member.
 9. List of Questions for Consultant Interviews.
 10. Original Evaluation Sheets (Proposal and Interview).
 11. PRC Memorandum of Selection.
 12. Original Winning Proposal.
 13. Sole-Source Justification (if applicable).
 14. Cost Price Analysis and Fair & Reasonable Determination.
 15. Pre-Award and Post-Award Audit (if applicable).
 16. Contract Approval Routing.
 17. PO (generated in SCAG's Financial Management Information System for encumbrance purposes).
 18. Certificate of Insurance with endorsement.
 19. Original Contract.
 20. Notice-to-Proceed Letter(s).
 21. Correspondences (Letters, Emails, Faxes).
 22. Amendment(s).
 23. Other supporting documents.
- D. In accordance with the Caltrans Local Assistance Procedures Manual, Section 10.8, *Administer the Contract*, the CA is also responsible for conducting post award

SCAG Procurement Policy & Procedures Manual

administration. This includes but is not limited to: attending the kick-off meeting and other meetings on contract issues, monitoring the project's progress, receiving/reviewing reports, and reviewing and approving invoices, ensuring consultant's expenditures conform to the California State Department of Personnel Administration Rules - SCAG's Travel Guidelines, etc. Note - SCAG staff, including Contracts staff, cannot authorize a consultant to exceed the rates in the State's Rules.

- E. Contract files will be closed out in accordance the Section 8.4, and maintained in accordance with 49 CFR § 18.42, or successors there to. See SCAG's Record Retention Policy.

4.3. **Responsibilities Matrix**

Contracts shall meet with SCAG PM's semi-annually to review and update as necessary the Responsibilities Matrix. Further, to facilitate execution of each year's Overall Work Program (OWP) projects, Contracts may establish and maintain a quarterly meeting with SCAG staff to review project schedules.

5. **Types Of Agreements**

The Contracts Department uses various types of agreements to procure goods and services based on the type of good or service to be procured. All agreements (contract, PO...) funded with Consolidated Planning Grant (CPG) funds must be competitively procured or procured with a sole source justification if the purchase exceeds the federal micro purchase threshold, currently \$3,500. Each agreement type is described in turn below:

5.1. **Purchase Order (PO) Agreement**

There are two (2) types of PO's, Standard and Blanket. A PO should be issued to a vendor prior to any order being placed with a vendor.

5.1.1. **Standard PO Agreement**

- A. A Standard PO is an agreement containing the terms and conditions for SCAG to procure off-the-shelf purchases of goods or services. A Standard PO is ideal for an infrequent purchase that requires a single purchase transaction. This means that once the good or service has been received by SCAG, the Accounting Department processes the invoice for payment and the PO is closed in SCAG's Financial Management Information System.
- B. See Purchase Requisition Instructions (available on Contract's intranet webpage) for further instruction on creating requisitions.

5.1.1.1. **Purchasing Computer Hardware, Software, and Peripherals Using a PO**

- A. It is crucial that any computer equipment being ordered is compatible with SCAG's computer network. Therefore, orders that are charged to a

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REPORT

DATE: September 12, 2017
TO: Audit Committee
FROM: Josh Margraf, Internal Auditor, (213) 236-1890, margraf@scag.ca.gov
SUBJECT: Internal Audit Status Report

RECOMMENDED ACTION:
For Information Only – No Action Required.

EXECUTIVE SUMMARY:
The Internal Auditor will describe work performed since the last Audit Committee meeting.

STRATEGIC PLAN:
This item supports SCAG’s Strategic Plan, Goal 3 – Enhance the Agency’s Long Term Financial Stability and Fiscal Management.

BACKGROUND:
Since the last Audit Committee meeting in May 2017, Internal Audit has assisted the Contracts Department with preaward audits, rate checks, monitored the Ethics Hotline, and performed a review of contract close-out practices.

Preaward Audits
The following four preaward audits have been performed.

<u>Consultant (Contract Number)</u>	<u>Proposal Amount</u>	<u>Questioned Costs</u>	<u>Questioned Costs Sustained</u>
Gruen Associates (17-024-C1)	\$295,773	\$6,032	\$6,032
Cambridge Systematics (17-035-C1)	\$469,930	\$3,433	\$3,433
Kimley-Horn (17-036-C1)	\$344,161	\$6,655	\$6,655
KTUA (18-001-B54)	\$99,861	-0-	-0-
Totals	\$1,209,725	\$16,120	\$16,120

Rate Checks
Internal Audit provided assistance to the Contracts Department by providing rate checks—direct labor rates and indirect rates—on consultant information for one contract amendment and three requests for proposal. These were not full audits, but included procedures for verifying direct labor rates as well as indirect rates.¹

¹Included are direct labor rate checks for amendments to contracts 16-10A-C1 as well as direct labor and indirect rate checks for the following RFPs: 18-001-B44, 18-001-B46, and 18-001-B53.



REPORT

Ethics Hotline

Since the last Audit Committee meeting on May 9, 2017, SCAG has received four additional reports through the Ethics Hotline. This brings the total number of cases reported via the Ethics Hotline to 15, with one report being a duplicate. SCAG has reviewed all of the cases, and to date, has closed six. A report on the Ethics Hotline is included in today's agenda.

Agenda Items

A report on SCAG's contract close-out practices is also included in today's agenda.

FISCAL IMPACT:

None

ATTACHMENT:

None