REVISED 3.18.19

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SOUTHERN CALIFORNIA
ASSOCIATION OF GOVERNMENTS
900 Wilshire Blvd., Ste. 1700
Los Angeles, CA 90017
T: (213) 236-1800
www.scag.ca.gov

MEETING OF THE
AUDIT COMMITTEE

Thursday, March 21, 2019
10:30 a.m. – 12:00 p.m.

SCAG MAIN OFFICE
900 Wilshire Blvd., Ste. 1700
Policy Room A
Los Angeles, CA 90017
(213) 236-1800

Please See Next Page for Other Meeting Locations

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: www.scag.ca.gov/committees

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 calling (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.

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List of Audit Committee Members Participating at SCAG Offices* and Other Meeting Locations
Date: Thursday, March 21, 2019
Time: 10:30AM-12:00PM
Location: SCAG Main Office
900 Wilshire, Suite 1700 – Policy Room A
Los Angeles, CA 90017

TELECONFERENCE INSTRUCTIONS & INFORMATION PURSUANT TO GOVERNMENT CODE §54953. For Brown Act requirements, please post a copy of the agenda at your teleconference location.

	List of Members	Meeting Locations
1.	**Hon. Randon Lane, Chair** *City of Murrieta, District 5*	**SCAG Main Office*** 900 Wilshire, Suite 1700 Los Angeles, CA 90017
2.	**Hon. Alan Wapner** *SBCTA*	Ontario City Hall 303 East "B" Street Ontario, CA 91764
3.	**Hon. Bill Jahn** *City of Big Bear Lake, District 11*	N/A
4.	**Hon. Margaret Finlay** *City of Duarte, District 35*	N/A
5.	**Hon. Sean Ashton** *City of Downey, District 25*	**SCAG Main Office*** 900 Wilshire, Suite 1700 Los Angeles, CA 90017
6.	**Hon. Jim Hyatt** *City of Calimesa, District 3*	**SCAG Riverside Office*** 3403 10th Street, Suite 805 Riverside, CA 92501
7.	**Hon. Clint Lorimore** *City of Eastvale, District 4*	N/A
8.	**Hon. Steve Manos** *City of Lake Elsinore, District 63*	Lake Elsinore City Hall Conference Room B 130 S Main Street Lake Elsinore, CA 92530
9.	**Hon. Ray Marquez** *City of Chino Hills, District 10*	Chino Hills Government Center Second Floor – City Council Office 14000 City Center Drive Chino Hills, CA 91709
10.	**Hon. Fred Minagar** *City of Laguna Niguel, District 12*	Minagar & Associates, Inc. 23272 Mill Creek Drive, Suite 240W Laguna Hills, CA 92653

List of Audit Committee Members Participating at SCAG Offices* and Other Meeting Locations

Date: Thursday, March 21, 2019
Time: 10:30AM-12:00PM
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900 Wilshire, Suite 1700 – Policy Room A
Los Angeles, CA 90017

TELECONFERENCE INSTRUCTIONS & INFORMATION PURSUANT TO GOVERNMENT CODE §54953. For Brown Act requirements, please post a copy of the agenda at your teleconference location.

11. **Sup. Linda Parks** *Ventura County*	625 West Hillcrest Drive Thousand Oaks, CA 91360
12. **Hon. Carmen Ramirez, Vice Chair** *City of Oxnard, District 45*	N/A
13. **Hon. Ali Saleh** *City of Bell, District 27*	Bell City Hall 6330 Pine Avenue Bell, CA 90201
14. **Hon. Marty Simonoff** *City of Brea, District 22*	El Segundo City Hall 350 Main Street El Segundo, California 90245
15. **Hon. Cheryl Viegas-Walker** *City of El Centro, District 1*	Walker & Driskill, PLC 3205 S. Dogwood Road, Suite B El Centro, CA 92243

AUDIT COMMITTEE AGENDA

Southern California Association of Governments

900 Wilshire Boulevard, Suite 1700
Los Angeles, California 90017
Thursday, March 21, 2019
10:30 AM

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 AND PLEDGE OF ALLEGIANCE
(The Honorable Randon Lane, 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 Committee, must fill out and present a Public Comment Card to the committee staff prior to speaking. Comments will be limited to three (3) minutes per speaker. The Chair has the discretion to reduce the time limit based upon the number of speakers and may limit the total time for all public comments to twenty (20) minutes.

REVIEW AND PRIORITIZE AGENDA ITEMS

CONSENT CALENDAR	**Time**	**Page No.**
Approval Item		
1. Minutes of the January 8, 2019 Meeting		**1**
ACTION/DISCUSSION ITEM		
2. Financial Auditors Contract Extension *(Basil Panas, Chief Financial Officer)* **RECOMMENDED ACTION:** The Audit Committee to authorize the extension of SCAG's contract with its financial auditors by two years.	**10 mins.**	**5**
INFORMATION ITEMS		
3. IT Governance – A Framework for Success ***(Joshua Margraf, Internal Auditor)***	**15 mins.**	**7**

INFORMATION ITEMS - continued	**Time**	**Page No.**
4. Caltrans Indirect Cost Allocation Plan (ICAP) Audit Results ***(Darin Chidsey, Interim Executive Director)***	**15 mins.**	**13**
5. Independent Cost Estimate for SCAG Request for Proposals (RFPs) ***(Joshua Margraf, Internal Auditor)***	**15 mins.**	**15**
6. Internal Audit Status Report ***(Joshua Margraf, Internal Auditor)***	**15 mins.**	**22**

FUTURE AGENDA ITEM/S

ANNOUNCEMENT/S

ADJOURNMENT

The next regular meeting of the Audit Committee will be determined at a later date.

REPORT

Southern California Association of Governments
900 Wilshire Blvd., Suite 1700, Los Angeles, CA 90017

AUDIT (AC) COMMITTEE
MINUTES OF THE MEETING
TUESDAY, JANUARY 8, 2019

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

The Audit Committee met at SCAG, 900 Wilshire Blvd., 17th Floor, Los Angeles, CA 90017. The meeting was called to order By Chair, Randon Lane. A quorum was present.

Members Present:

Hon. Randon Lane, Chair	***Murrieta***	**District 5**
Hon. Carmen Ramirez, Vice Chair	***Oxnard***	**District 45**
Hon. Alan D. Wapner	*Ontario*	SBCTA
Hon. Bill Jahn	*Big Bear Lake*	District 11
Hon. Margaret Finlay	*Duarte*	District 35
Hon. Sean Ashton	*Downey*	District 25
Hon. Jim Hyatt	*Calimesa*	District 3
Hon. Clint Lorimore	*Eastvale*	District 4
Hon. Steve Manos	*Lake Elsinore*	District 63
Hon. Ali Saleh	*Bell*	District 27
Hon. Marty Simonoff	*Brea*	District 22
Hon. Cheryl Viegas-Walker	*El Centro*	District 1

Members Not Present

Hon. Ray Marquez	*Chino Hills*	District 10
Hon. Fred Minagar	*Laguna Niguel*	District 12
Sup. Linda Parks	*Ventura County*	

CALL TO ORDER AND PLEDGE OF ALLEGIANCE

Chair Lane called the meeting to order at 10:05 a.m. and asked everyone to join him in the Pledge of Allegiance.

PUBLIC COMMENT PERIOD

There were no public comments.

REVIEW AND PRIORITIZE AGENDA ITEM

There was no reprioritization of the agenda.

CONSENT CALENDAR

Approval Item

1. 2019 Proposed Meeting Schedule

2. Minutes of the August 14, 2018 Meeting

3. Minutes of the October 24, 2018 Meeting

A MOTION was made (Jahn) and SECONDED (Finlay) to approve the Consent Calendar Approval Items 1 and 3. The motion was passed by the following roll call vote:

FOR: Lane, Ashton, Finlay, Hyatt, Jahn, Lorimore, Manos, Saleh, Simonoff, Viegas-Walker and Wapner (11).

AGAINST: None (0).

ABSTAIN: Ramirez (1)

It should also be noted that Ashton abstained from the vote with respect to Item 2 as he was not in attendance at the August 14, 2018 Audit Committee meeting. Ramirez abstained, noting that she arrived to the meeting after the voting on the Consent Calendar had commenced.

INFORMATION ITEMS

4. Fiscal Year (FY) 2017-18 External Financial Audit

Roger Alfaro, Partner, Vavrinek, Trine, Day & Co., LLP (VTD) SCAG's outside independent auditors summarized the results of the FY 2017-18 preliminary audit report. VTD also presented in detail the audit scope and timeline, key areas of emphasis and responsibility of the audit process, the planning and risk assessment performed, financial statement highlights, and the summary of the year-end fieldwork and testing.

Mr. Alfaro reported that there were no material weaknesses of Internal Controls over Financial Reporting, Compliance and other matters. In addition, there was an Unmodified Opinion reported for its FY 2017-18 financial statements (CAFR), Single Audit and Compliance.

Mr. Alfaro and SCAG staff responded to comments and questions expressed by Committee members, including clarification of the payroll recommendation/maintenance of the personnel action forms outlined in the required Management Letter; and comments regarding the testing of Contracts' obligation to report monthly.

The Committee thanked the external audit team for a thorough audit presentation.

5. Contract Invoice Review

Joshua Margraf, Internal Auditor (IA), provided results of a contract invoice review that focused on how frequently SCAG receives consultant invoices. He reported that a random sample of contracts started in 2017 was selected. He stated that the results, based on the sample, showed that SCAG had not received invoices regularly as per contract terms. If invoices are not received regularly, project managers cannot monitor consultant performance as effectively. Additionally, Mr. Margraf noted that some SCAG contracts include a clause that allows SCAG to charge a $1,000 penalty per late invoice, and, as SCAG updates its policies and procedures, it should think of ways to help ensure timely invoices and progress reports.

Discussion ensued on several topics ranging from the challenge of linking consultant progress reports with invoices, applying the contractual penalty of $1,000 for late receipt of invoices, and what improvements to the policies and procedures process can be taken to ensure a consistent way for measuring performance.

Staff explained that vendors do not bill on a regular basis, and that this has been an ongoing concern. Darin Chidsey, Interim Executive Director, commented that there are many factors involved, and while SCAG wants to attract more business, executing fines for late invoices had been seen as a practice that may deter such. Mr Chidsey noted that SCAG is working on a comprehensive corrective action plan based on Caltrans audit findings that includes contract monitoring and invoicing, and that updated and specific details of the corrective action plan will be presented at the next Audit Committee meeting.

The Committee agreed and asked that a solution or action plan be presented at the next meeting.

6. Vendor-Employee Address Comparison Review

Joshua Margraf, Internal Auditor, provided a report that compared vendor and consultant addresses with employee and Regional Council (RC) member addresses to determine if any discrepancies existed.
Mr. Margraf provided background into how SCAG enters into contracts with vendors and consultants. The results of the report showed that there was only one match where a vendor/consultant with active status in SCAG's accounting system shared an address with a former RC member. Contracts staff noted in the report that the RC member likely owned the business prior to joining SCAG, and used the business address as the RC member address. Another reason for the match that was noted in the report could have been due to the vendor/consultant addresses not being updated or inactivated in the accounting system on a frequent basis.

Mr. Margraf recommended that the master vendor ID list, a list SCAG maintains that contains all unique ID vendor numbers be checked regularly for duplicate entries so as to ensure it is up-to-date. In addition, he noted that it may be helpful to change vendor/consultant status from active to inactive if SCAG has not done business with them for a certain period of time.

Staff responded to the comments and questions expressed by Committee members, including discussing the type of accounting software used to track vendors. Committee members expressed interest in Information Technology (IT) recommendations and upgrades for future software/hardware planning projects that could potentially include updating or replacing the current accounting system so as to potentially improve controls.

Julie Loats, CIO, IT, commented that an IT Steering Committee meets monthly to discuss system priorities, future planning and operations. A progress report on IT recommendations and applicable budgets will be provided during a future Audit Committee meeting.

7. Internal Audit Status Report

Joshua Margraf, Internal Auditor, provided a brief overview of the Internal Audit Status Report. He focused the report on a Peer Review update.

Discussion ensued on comparisons and definitions between Red and Yellow Book standards, and which standards SCAG should adopt. Mr. Margraf asked the Committee to provide feedback on their preference.

Staff responded to comments and questions expressed by Committee members, including questions regarding standards other MPOs use; whether SCAG has plans to hire additional staff in the Internal Audit (IA) department; and the preference of the Committee to shift "preaward" review work from the IA department to the Contracts department.

Mr. Chidsey noted that it is important to have a clear standards for audit work to follow, and that he agreed with the Committee recommendation that adopting Red Book standards while working in some standards of the Yellow Book makes sense for the IA. He commented that in the interim, staff will reach out to like agencies, and report on any observations at the next Audit Committee meeting.

In conclusion, Mr. Chidsey provided an update of ongoing and completed external audits. He noted that once the final documents from Caltrans are received, (ICAP and the Incurred Cost Audit) SCAG will provide the results to the Committee.

FUTURE AGENDA ITEMS

Members of the Committee requested the following items for a future meeting:

A solution or action plan regarding vendor invoicing and receipts management.
An update of the Caltrans Incurred Cost Audit Plan corrective action plan.
An update on the ICAP Audit findings.
A progress report on IT software recommendations and applicable budgets.

ANNOUNCEMENTS

Chair Lane and the Committee offered remarks about their Holiday break.

ADJOURNMENT

There being no further business, Chair Lane adjourned the Audit Committee meeting at 11:03 a.m.

[MINUTES ARE UNOFFICIAL UNTIL APPROVED BY THE AUDIT COMMITTEE]
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REPORT

Southern California Association of Governments
900 Wilshire Boulevard, Suite 1700, Los Angeles, California 90017
March 21, 2019

To: Audit Committee (AC)

INTERIM EXECUTIVE DIRECTOR'S APPROVAL

From: Basil Panas, Chief Financial Officer, Audit Committee, 213-236-1817, panas@scag.ca.gov

Subject: Financial Auditors Contract Extension

RECOMMENDED ACTION:
The Audit Committee authorize the extension of SCAG's contract with its financial auditors by two years.

STRATEGIC PLAN:
This item supports the following Strategic Plan Goal 7: Secure funding to support agency priorities to effectively and efficiently deliver work products.

EXECUTIVE SUMMARY:
Staff is proposing that the Audit Committee authorize the extension of SCAG's contract with its financial auditors by two years.

BACKGROUND:
SCAG's external independent auditors, Vavrinek, Trine, Day, and Company, LLP (VTD) are currently in the third year of a contract with SCAG. The initial term of the contract is through June 30, 2020. SCAG is proposing to the Committee that the contract be extended for another two years. There are some benefits in doing so. These include:

(1) Leveraging VTD's familiarity with SCAG operations and Caltrans' audit findings and recommendations so as to provide better oversight regarding how SCAG is addressing said finding and recommendations.

(2) Avoiding the use of staff time required to familiarize a new CPA firm with SCAG operations.

(3) Avoiding extra use of staff time needed to procure a new firm during a busy year for procurements.

SCAG has used the same CPA firm for over three years in the past. See below for past audit firms and the fiscal years (FY) SCAG hired them to perform the financial audit.

FY2017-19: VTD

FY2011-16:	Vasquez
FY2009-10:	Mayer Hoffman[1]
FY2006-08:	Vasquez
FY2005:	KPMG

If Committee authorizes the extension of VTD's contract, staff would negotiate the price with VTD using the current year of the contract as a benchmark with the proposed contract amendment presented for review and approval by the Regional Council at a future date.

FISCAL IMPACT:
Approximately $143,000 – to be negotiated.

[1]The Regional Council terminated this contract early because of Mayer Hoffman's audit of the City of Bell

REPORT

Southern California Association of Governments
900 Wilshire Boulevard, Suite 1700, Los Angeles, California 90017
March 21, 2019

To: Audit Committee (AC)

INTERIM EXECUTIVE DIRECTOR'S APPROVAL

From: Julie Loats, Chief Information Officer, Information Technology, 213-236-1910, Loats@scag.ca.gov

Subject: IT Governance - A Framework for Success

RECOMMENDED ACTION:
None

STRATEGIC PLAN:
This item supports the following Strategic Plan Goal 3: Be the foremost data information hub for the region.

EXECUTIVE SUMMARY:
SCAG's CIO will present an overview of IT Governance and a shared vision for success.

BACKGROUND:
SCAG Information Technology has implemented an IT Governance Framework and service management tool to align IT resources and priorities with the business needs of the agency. This presentation will discuss the current state of SCAG IT and progress towards implementing a collaborative governance framework.

FISCAL IMPACT:
None

ATTACHMENT(S):
1. ITGovPresentation

IT Governance

A Framework for Success

Julie Loats, CIO
SCAG Information Technology
March 21, 2019

www.scag.ca.gov

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Overview of SCAG Information Technology

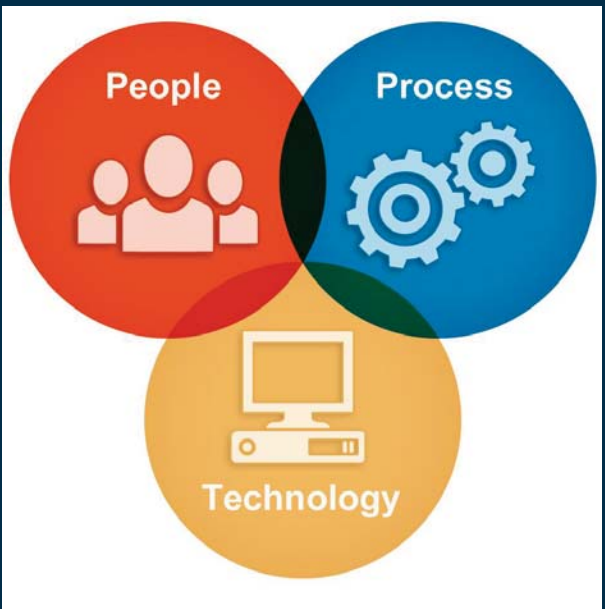
SCAG IT by the numbers

- 256 servers in a hybrid cloud environment
- 190 workstations
- 14 conference rooms, 5 regional offices, 3 partner video locations
- 56 helpdesk tickets per month
- 70 deskside support requests per month
- Amazon Web Services Modeling Infrastructure

As of March 11, 2019

- 56 potential project ideas for review
- 44 active projects
- 66 active service requests

Why IT Governance?



*"**IT governance** is defined as the processes that ensure the effective and efficient use of IT in enabling an organization to achieve its goals."*

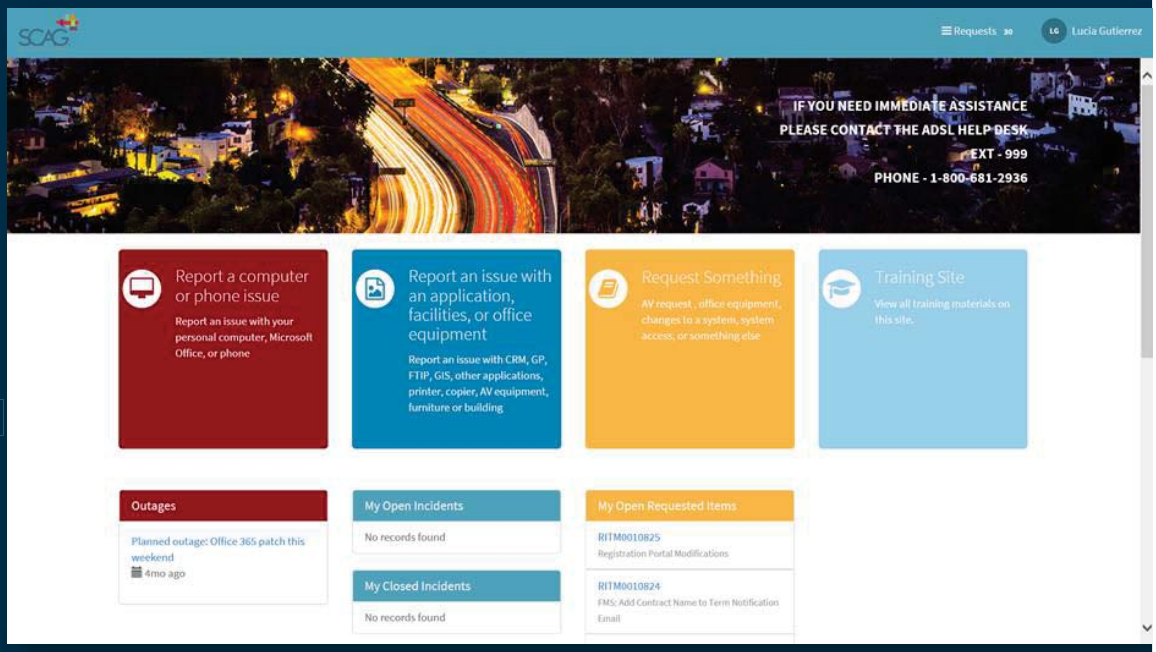
– Gartner

Capturing SCAG IT needs

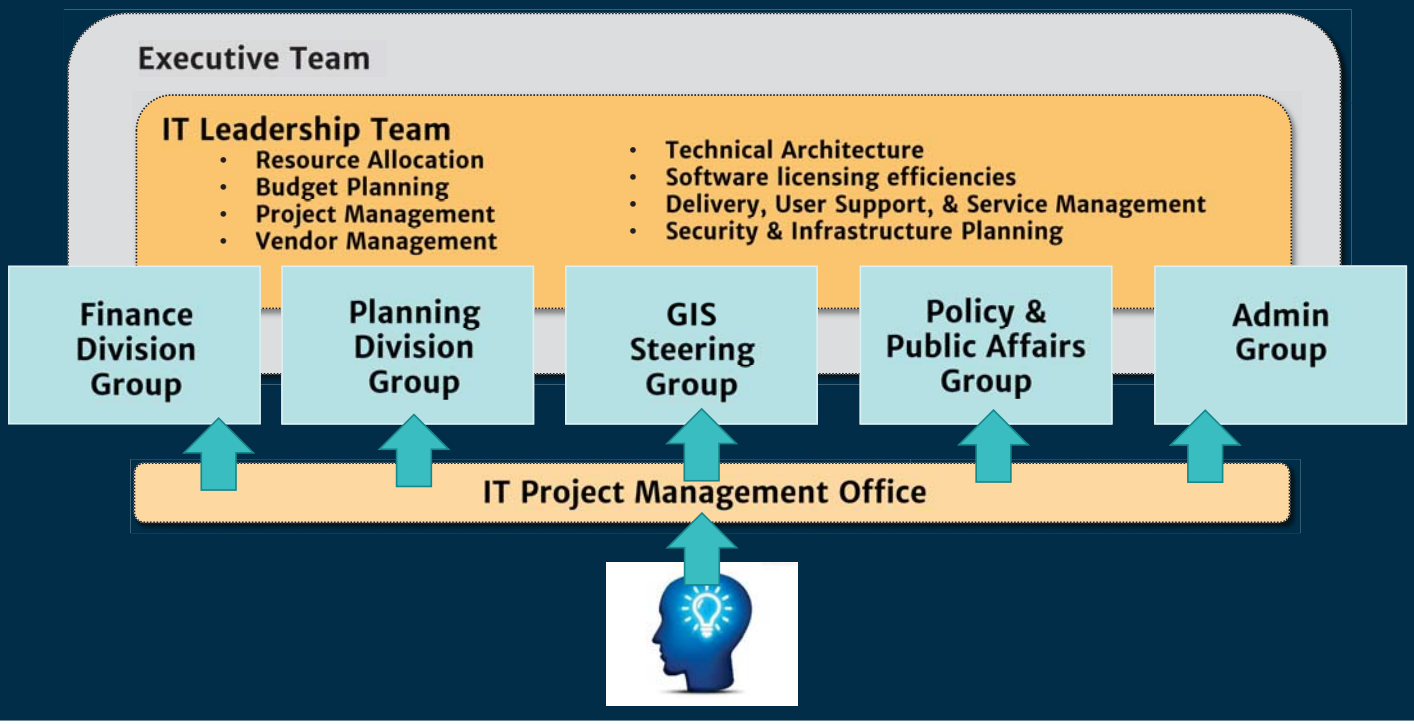
ServiceNow

IT Service Management Platform

Single location for capturing, processing, and using industry best practices for IT service management, project management and workflow



SCAG IT Governance

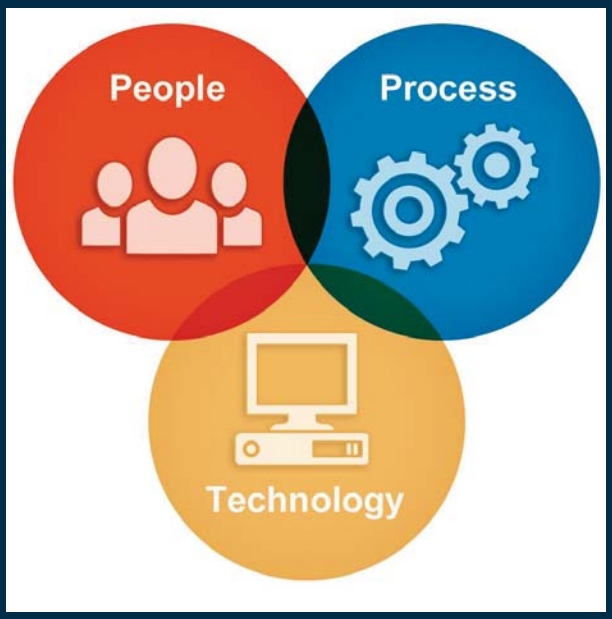


Sample Prioritization

Finance Division Group

Title	Request Type	Priority
Update FMS to support Toll Credits	Project	1
FMS Project: Grant and MOU Tracking	Project	2
FMS: Auto-populate Cost Center Field	Service Request	3
FMS: Add FY to PO records	Service Request	4
GP: AR aging reports	Project Request	5
GP: AP aging	Project Request	6
GP: Fixed assets	Project Request	7
GP: Progress billing or partial billing	Service Request	8
GP: Stipend process	Idea	9
GP: Travel expenses in Concur	Idea	10
GP: Credit card charge import	Idea	11
GP: Payroll tax reports	Idea	12
GP: W2 reportsIDEA0001651	Idea	13
GP: Incorrect or duplicated GL distribution	Idea	14
GP: Bank reconciliation	Idea	15
GP: Inactivate vendors	Idea	16
GP: Close POs or PO lines	Idea	17

Benefits of Shared IT Governance



- Consensus we are working on the right things for SCAG
- Alignment of resources across the organization necessary for success
- Visibility and transparency in decision making
- Identify opportunities for efficiency and long range planning
- Mitigate risk, manage cost, and deliver value

Thank you

Julie Loats, CIO
loats@scag.ca.gov
www.scag.ca.gov

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REPORT

Southern California Association of Governments
900 Wilshire Boulevard, Suite 1700, Los Angeles, California 90017
March 21, 2019

To: Audit Committee (AC)

INTERIM EXECUTIVE DIRECTOR'S APPROVAL

From: Darin Chidsey, Interim Executive Director, Executive Management, (213) 236-1836, Chidsey@scag.ca.gov

Subject: Caltrans Indirect Cost Allocation Plan (ICAP) Audit Results

RECOMMENDED ACTION:
For Information Only - No Action Required

STRATEGIC PLAN:
This item supports the following Strategic Plan Goal 7: Secure funding to support agency priorities to effectively and efficiently deliver work products.

EXECUTIVE SUMMARY:
Caltrans completed its SCAG ICAP audit, which included findings of noncompliance and questioned costs.

BACKGROUND:
At the January 8, 2019 meeting, the Committee requested that staff report back on the status of Caltrans ICAP audit as well as any progress made implementing audit recommendations. Caltrans released the ICAP report on January 9, 2019.[1] The audit found that some of SCAG's procurement practices and charging practices were not in compliance with state and federal regulations nor SCAG's policies and procedures. They also disallowed $2,617,813 of costs billed to Caltrans. The ultimate repayment amount is unknown as it is currently being negotiated as part of the next phase of the process, which includes Caltrans providing SCAG with a corrective action plan that will provide steps/actions for SCAG to take to address audit findings and recommendations. Caltrans Planning and Programs unit is responsible for working with SCAG to determine what, if any funds, must be repaid. This part of the process can take several months to conclude.

In the meantime, until SCAG receives the Correction Action Plan from Caltrans, SCAG continues to address the findings in the ICAP audit and has made progress developing the policies and procedures required in several areas (as shown below) that address the audit's findings and recommendations. SCAG has also completed key actions that respond to the audit findings. For instance, SCAG received procurement training and information on other procurement practices from Julie Wiley, SANDAG Special Counsel and Manager of Contracts and Procurement on February 11, 2019. SCAG expects to complete the work discussed below by June 30, 2019.

[1]Caltrans, *Southern California Association of Governments Indirect Cost Allocation Plan Audit*, (Sacramento, CA: Jan. 9, 2019).

Finding 1: Improper Procurement Procedures

The report's recommendations include SCAG:

- Making adjustments to its FY 2014-15 and FY 2016-17 Indirect Cost Pools (**completed)**
- Strengthening its procurement policies and procedures to ensure compliance with state and federal regulations in the SCAG Procurement Manual **(in process)**
- Staff and management receiving training on:
    - ❖ Procurement procedures **(training completed on February 11, 2019)**
    - ❖ Architectural and Engineering procurements **(SCAG staff will attend a Caltrans training session that will occur in April/May 2019)**

Finding 2A: Unallowable Indirect Costs Included in the FY 2016/17 ICAP

The report's recommendations include SCAG:

- Making adjustments to its FY 2014-15 and FY 2016-17 Indirect Cost Pools **(completed)**
- Strengthening its policies and procedures for segregating direct, indirect and allowable costs in the SCAG Accounting and Procurement Manuals **(in process)**
- Strengthening its documentation of travel expenses in the SCAG Travel Policy (**in process**)

Finding 2B: Unallowable Labor Costs

The report's recommendations include SCAG:

- Ensuring that its labor billings to Caltrans are accurate which procedures described in the Accounting and/or Procurement Manual**(in process)**
- Developing and implementing written policies and procedures for proper and consistent labor charging practices in the Accounting and/or Procurement Manual **(in process)**

FISCAL IMPACT:

None

ATTACHMENT:

None

REPORT

Southern California Association of Governments
900 Wilshire Boulevard, Suite 1700, Los Angeles, California 90017
March 21, 2019

To: Audit Committee (AC)

From: Joshua Margraf, Internal Auditor, Audit Committee, (213) 236-1890, margraf@scag.ca.gov

INTERIM EXECUTIVE DIRECTOR'S APPROVAL

Subject: Review of Independent Cost Estimates for SCAG Requests for Proposals

RECOMMENDED ACTION:
For Information Only – No Action Required

STRATEGIC PLAN:
This item supports the following Strategic Plan Goal 7: Secure funding to support agency priorities to effectively and efficiently deliver work products.

EXECUTIVE SUMMARY:
Internal Audit compared SCAG independent cost estimates developed for the procurement of consultant services with corresponding consultant proposals to determine the extent to which they differed and offered suggestions to improve the process.

INTRODUCTION:
SCAG enters into contracts with a variety of consultants to help carry out its planning work. SCAG requires project managers (PM) to develop independent cost estimates prior to soliciting work from consultants.[1] The cost estimate is a tool to assist SCAG staff in determining the reasonableness of a consultant bid or proposal that is being evaluated. Staff use the estimates to evaluate bids and proposals based on scope and cost. The cost estimate is dependent on facts surrounding the need for a particular procurement situation, and should take into consideration the scope of work and type of services to be procured. Cost estimates can range from a simple budgetary estimate to something more complex based on costs to be incurred, such as type of labor, labor hours, data specifications, and prior procurement data, among other things. While performing preaward reviews, Internal Audit has, at times, noticed significant differences between SCAG cost estimates and the cost estimates of selected consultant proposals. These differences have been large enough at times to inquire as to why and how certain proposals were selected. It is important to note that large differences between SCAG's cost estimates and proposal estimates may still result in concluding that a consultant proposal is reasonable.

[1]SCAG, *Procurement Policy & Procedures Manual*, (Revised Dec. 1, 2016), and *Project Management Manual*. The *Project Management Manual* did not have a date on the document.

This review found that SCAG's cost estimates do not always include the rationale for how certain costs have been determined (e.g. market research, past experience with similar types of projects, etc.). Although the rationale for how costs were determined is not specifically required by federal or state regulations, doing so would make it helpful to better understand variances between SCAG cost estimates and proposal estimates. Even including the rationale for simple budgetary estimates can help provide context as to why and how the PM determined costs. Further, the Caltrans incurred cost audit identified deficiencies with some SCAG cost estimates in that they were not always signed and dated to demonstrate that they were developed prior to cost negotiation, among other things.[2] Without well-developed and well-documented cost estimates, it can be challenging for SCAG to effectively evaluate the reasonableness of consultant proposals as well as ensure SCAG is using public funds in an effective manner.

BACKGROUND:

Both SCAG's *Project Management Manual* and *Procurement Policy & Procedures Manual* require PMs to prepare an independent cost estimate prior to procuring consultant services. The cost estimate is to be maintained in a contract file with other contract documentation. SCAG cost estimates typically sort costs for each task or step of work to be performed by a consultant. Costs are further sorted into categories that include hours worked, direct labor costs, indirect labor cost (overhead and fringe rates that are applied to direct labor rates), other direct costs (such as travel and materials, among other things), and profit/fee.[3] SCAG staff typically use a Microsoft Excel template to show they have categorized costs (see Attachment I for a copy of the template).[4]

SCOPE AND METHODOLOGY:

For this engagement, we focused on the extent to which SCAG's independent cost estimates differ from consultant proposals selected for contract execution. We chose a random sample of active contracts from SCAG's Financial Management System (FMS).[5] After selecting the sample, we compared the cost estimate in the contract file with corresponding proposal's estimate.[6] In addition, we checked SCAG's *Procurement Policy & Procedures Manual* and *Project Management*

[2]Caltrans, *Southern California Association of Governments Incurred Cost Audit*, (Sacramento, CA: Sept. 21, 2018). The audit also found that SCAG did not always perform an independent cost estimate when amending contracts, among other things.

[3]This specific breakdown of costs is also a Caltrans requirement. With regard to profit/fee, SCAG allows for 10 percent on cost-plus-fixed-fee contracts as per federal regulations.

[4]This template for staff mirrors the template SCAG requires consultants to complete when submitting proposals.

[5]Internal Audit ran a query of active contracts for fiscal years 2016 through 2019 on February 1, 2019, and randomly selected six contracts. One contract in the sample had a corresponding cost estimate that was only for labor rate rather than the entire contract's cost (it did not include other cost categories found in cost plus fixed fee contracts). As such, another contract was randomly selected and added to the sample. The query resulted in 105 contracts, and the sample number represents almost seven percent of the sample universe. This time frame represents relatively recent operations, and we believe the sample contracts provide enough information to show how estimates have differed from those of selected consultant proposals when combined with examples found during preaward reviews.

[6]In instances where consultant proposals include subconsultants, subconsultant costs were added to the prime consultant's costs per cost category to come up with total costs per category. However, sometimes sub consultants did not categorize their estimate per the cost categories as per the budget template SCAG requires consultants to use. For these cases, their costs were considered labor costs.

Manual to see what guidance is available to staff regarding development of cost estimates. Findings from this review can provide input into future reviews of SCAG project management, to include cost estimating.

RESULTS:

As noted above, significant differences between SCAG independent cost estimates and consultant proposal estimates have been identified as part of the preaward review process performed by Internal Audit. Understanding why these differences occur can help potentially lead to better estimating. In one instance, SCAG's cost estimate total was approximately one percent less than a winning proposal's overall cost. However, the cost breakdown showed large differences, specifically that SCAG's estimate for other direct costs was 236 percent higher than the proposal's estimate, while SCAG's estimated labor hours were 108 percent less than the proposal numbers. In another instance, SCAG's cost estimated varied substantially from the winning proposal—it was 289 percent lower. Upon closer inspection of the SCAG estimate, we found a separate set of direct labor costs for each task that when summed together were much closer to the selected proposal (one percent less than the proposal). Because the SCAG estimate was not dated and did not include a description of the rationale for how costs were determined, it is unclear when or why there are two sets of numbers in the estimate as well as which numbers were used in selecting the winning proposal.

The above examples originate from preaward review work. They are in addition to differences noted in the sample of contracts selected as part of this review. Table 1 shows the results of comparing SCAG's independent cost estimate with the corresponding proposal estimate.

Table 1: SCAG Cost Estimates Compared to Selected Proposal

Contract	SCAG Estimate	Proposal Estimate	Difference	Percent Difference
17-002-C04	$260	$330	-$70	-26.92%
18-001-B54	$99,981	$99,861	$120	0.12%
18-018-C01	$198,505	$150,112	$48,393	24.38%
18-028-C01	$705,703	$700,044	$5,659	0.80%
18-029-C01	$178,363	$211,236	-$32,873	-18.43%
19-005-C01	$12,000	$12,000	$0	0%
19-007-C01	$280,358	$339,618	-$59,260	-21.14%

Source: Review of data extracted from FMS on February 1, 2019

For one contract in the sample—contract 19-005-C01—SCAG's cost estimate was the same as the proposal's. The reason for the estimates being the same is that SCAG's estimate in the contract file seems to have come directly from the consultant that entered into contract with SCAG. The contract was a fixed price agreement, so costs were not separated into cost categories like other contracts in the sample.

For two contracts in the sample, SCAG's independent cost estimates were within one percent (i.e. basically matched) of the corresponding proposal estimate. These included 18-001-B54 and 18-028-C01. Although overall/total estimate amounts were relatively the same, differences in underlying cost categories were apparent.

- For contract 18-001-B54, SCAG's estimate of direct labor costs was approximately 44 percent higher than the selected proposal, and its estimate for other direct costs was approximately 94 percent higher than the proposal. Conversely, SCAG's estimate of indirect labor costs was approximately 211 percent lower than the proposal. The SCAG estimate also did not include a profit/fee whereas the proposal did.

- For contract 18-028-C01, SCAG's estimate of direct labor costs was approximately 10 percent lower than the selected proposal. Also, SCAG's estimate for other direct costs was approximately 476 percent lower than the proposal. Conversely, SCAG's estimate of indirect labor costs was approximately 18 percent higher. Also, the selected proposal included a higher profit/fee.

For four contracts in the sample, SCAG's independent cost estimate varied from between approximately 18 to 27 percent when compared to the corresponding proposal. These include 17-002-C04, 18-018-C01, 18-029-C01, and 19-007-C01.

- For 17-002-C04, the estimate was for an hourly billing rate (the overall contract amount was $5,000). The contract was a labor hours agreement, so costs were not sorted into categories like other contracts in the sample. SCAG's cost estimate appears to have been based on historical data, and the consultant's proposed labor rate seems to have been supported by other contracts with a similar billing rate as what was proposed to SCAG.

- For 18-018-C01, SCAG's estimate showed total costs to be approximately 24 percent higher than the proposal. The key factor in the cost differential was due to SCAG's estimate having more labor hours than the proposal and higher indirect labor rate costs. The selected proposal included a higher profit/fee.

- For 18-029-C01, SCAG's estimate showed total costs to be approximately 18 percent lower than the proposal. They key reason for the difference was that SCAG estimated lower labor costs (labor costs comprised much of the overall cost)—SCAG's estimate for direct labor costs were approximately 10 percent lower, and its estimate for indirect labor costs was approximately 17 percent lower. SCAG's estimate for profit/fee was also lower than the proposal. In terms of dollar amounts, the other direct costs category did not include substantial dollar amounts. However, SCAG's estimate for this cost category was considerably lower than the proposal (by over 500 percent).

- For 19-007-C01, SCAG's estimate showed total costs to be approximately 21 percent lower than the proposal. SCAG's estimate for direct labor costs was approximately 32 percent lower than the proposal while its estimate for other direct costs was approximately 155 percent lower.

It can be difficult to tease out generalities based on the above sample given that each estimate is unique and tied to a specific project. However, some items tend to be recurring. For example, SCAG allows for a profit/fee of up to 10 percent, but the estimates in the sample consistently used a lower amount—the highest profit/fee amount in SCAG estimates was eight percent. Also, SCAG

estimates for other direct costs tend to vary greatly from corresponding proposals. Regardless of dollar amount (some estimates for other direct cost had relatively small amounts), five contracts contained estimates for other direct costs that varied significantly from corresponding proposals. It is unclear why such differences happen because the estimates do not contain a description of how costs were determined/what sources were used for such costs. With regard to indirect labor costs, SCAG tends to escalate direct labor costs by 150 percent to account for overhead and fringe. SCAG could choose to use different rates as long as it documents the rationale for the escalation factor. Finally, none of SCAG's cost estimates themselves were dated, but three had e-mail transmittals to Contracts staff that contained the estimate. Although one could assume this is the time frame the PM developed the estimate, one could also contend that it only shows the date when Contracts staff received the estimate. The expectation would be that Contracts staff receives the estimate from the PM at the time it receives the scope of work from the PM for requests for proposals. Since federal regulations require independent costs estimates be made before receiving bids or proposals, dating SCAG's estimates themselves can make it easier to establish compliance.

Both SCAG's *Project Management Manual* and the *Procurement Policy & Procedures Manual* require an independent cost estimate, but do not discuss in-depth how PMs can a develop such an estimate (e.g. market research, past experience with similar types of projects, comparable projects at similarly-sized public agencies, etc.) that is clearly linked to the scope of proposed work. Other than the cost estimate template (see Attachment I), staff may not have as much direction as they need to develop sound estimates, to include a discussion as to how estimates have been determined (such as the rationale for choosing certain rates and the source of certain costs) as well as how they should be documented. SCAG aims to maintain compliance with federal and state regulations by ensuring cost estimates are included in the contract file. However, these regulations do not require the cost estimates to discuss the rationale for certain costs. As such, the estimates tend to be only the cost template. Without guidance or training on how to develop cost estimates specifically linked to a scope of work as well as clear documentation on how costs were determined, it can be challenging to understand why substantial differences occur when comparing SCAG estimates with proposal estimates as well gauge the reasonableness of proposal estimates.

CONCLUSION:

Independent cost estimates are used by SCAG to analyze the consultant proposals to help ensure consultant services are obtained at a fair and reasonable price. In addition, they are required by both federal regulations and Caltrans prior to receiving consultant bids or proposals. It should be understood that SCAG's cost estimates will not fully align to (will differ to an extant from) proposal estimates, but it would be helpful to clearly see how costs were determined (e.g. data source and rationale as well how they linked to scopes of work) as SCAG's estimates are supposed to be a key driver in assessing consultant proposals. Further, it could help staff better understand the reasons why discrepancies occur between cost estimates and proposals while helping lay the groundwork to develop more refined estimates moving forward. Without well-developed, well-documented, and dated cost estimates, it can become difficult to ensure SCAG is acquiring consultant services via public funds in the most effective (i.e. fair and reasonable) way.

COMMENTS:

Finance and Legal staff provided comments on the report. There was agreement that more documentation would be helpful. Finance staff suggested the report clearly indicate that there are no federal or state requirements for a cost estimate to document the methodology or rationale as to how it was developed. These comments and input have been incorporated into the report.

FOLLOW-UP:
SCAG is currently updating its project management processes and procedures. This should include guidance and/or training on how to develop and document independent cost estimates with regard to procuring consultant services. Internal Audit will follow-up on cost estimating after SCAG institutes new processes and procedures.

FISCAL IMPACT:
None

ATTACHMENT(S):
1. Attachment I - Cost Estimate Template

Independent Cost Estimate For RFP#: 18-XXX-XX **Prepared By:** _____

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)
Cost Categories (You only need to add/rename Labor Classifications you require and the hours by task for each - you can use the rates listed or revise as you see fit)	**Maximum Hourly Rate**	**Task 1**		**Task 2**		**Task 3**		**Task 4**		**Task 5**		**Task 6**		**Task 7**		**Task 8**		**Task 9**		**Task 10**		**Grand Total (All tasks)**	
		TBD		TBD		TBD		TBD		TBD		TBD		TBD		TBD		TBD		TBD			
		Hours	*Amount*	*Hours*	*Amount*	*Hours*	*Amount*	*Hours*	*Amount*	*Hours*	*Amount*	*Hours*	*Amount*	*Hours*	*Amount*	*Hours*	*Amount*	*Hours*	*Amount*	*Hours*	*Amount*	*Hours*	*Amount*
Direct Labor Classification(s):																							
Principal-in-Charge	**$125.00**	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	$0.00	$0.00
Project Manager	**$85.00**	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	$0.00	$0.00
Sr. Planner/Modeler	**$40.00**	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	$0.00	$0.00
Intermediate Planner/Modeler	**$30.00**	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	$0.00	$0.00
Jr./Asst. Planner/Modeler	**$25.00**	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	$0.00	$0.00
Sr Engineer	**$60.00**	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	$0.00	$0.00
Engineer	**$50.00**	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	$0.00	$0.00
Sr. Technician	**$40.00**	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	$0.00	$0.00
Technician	**$30.00**	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	$0.00	$0.00
Sr. Analyst	**$40.00**	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	$0.00	$0.00
Analyst	**$30.00**	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	$0.00	$0.00
Graphic Artist	**$25.00**	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	$0.00	$0.00
Production	**$55.00**	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	0.0	$0.00	$0.00	$0.00
Add other labor classification - as necessary																							
Subtotal - Direct Labor		**0.0**	**$0.00**	**0.0**	**$0.00**	**0.0**	**$0.00**	**0.0**	**$0.00**	**0.0**	**$0.00**	**0.0**	**$0.00**	**0.0**	**$0.00**	**0.0**	**$0.00**	**0.0**	**$0.00**	**0.0**	**$0.00**	**$0.00**	**$0.00**
Overhead & Fringe *(inc. G&A)* **:**																							
Overhead estimated 75.00% of Direct Labor	100%		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00
Fringe estimated at 32.00% of Direct Labor	50%		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00
Subtotal - Overhead & Fringe (inc G&A):			**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**
Fixed Fee *(Maximum = 10% & its negotiable)*	8.00%																						
Subtotal - Fixed Fee:			**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**
Other Direct Costs (ODCs)																							
Travel			$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00
Printing - Directly Chargeable only			$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00
Other			$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00
Other			$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00
Other			$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00		$0.00
																							$0.00
Subconsultant**																							$0.00
Subtotal - ODCs:			**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**		**$0.00**
Grand Total		**0.0**	**$0.00**	**0.0**	**$0.00**	**0.0**	**$0.00**	**0.0**	**$0.00**	**0.0**	**$0.00**	**0.0**	**$0.00**	**0.0**	**$0.00**	**0.0**	**$0.00**	**0.0**	**$0.00**	**0.0**	**$0.00**	**0.0**	**$0.00**

** Use labor categories to estimate cost. Use Maximum rates possible during the entire contract period*

*** if you anticipate the use of subconsultants, use a copy of this template to identify subconsultant cost detail by task in a similar fashion and input final figures under each subconsultant (Hours & Amount by tasks involved)*

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REPORT

Southern California Association of Governments
900 Wilshire Boulevard, Suite 1700, Los Angeles, California 90017
March 21, 2019

To: Audit Committee (AC)

INTERIM EXECUTIVE DIRECTOR'S APPROVAL

From: Joshua Margraf, Internal Auditor, Audit Committee, (213) 236-1890, margraf@scag.ca.gov

Subject: Internal Audit Status Report

RECOMMENDED ACTION:
For Information Only – No Action Required.

STRATEGIC PLAN:
This item supports the following Strategic Plan Goal 7: Secure funding to support agency priorities to effectively and efficiently deliver work products.

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

BACKGROUND:
Since the last Audit Committee meeting in January, Internal Audit has assisted the Contracts Department with preaward reviews, performed a comparison of SCAG independent cost estimates with consultant proposal estimates, followed-up on prior reports, checked which audit standards other government agencies use, assisted with external audits, and monitored SCAG's Ethics Hotline.

A. Preaward Reviews
Internal Audit has performed preaward review work for contracts listed in Table 1.

Table 1: Preaward Reviews performed by Internal Audit

Consultant (Contract Number)	Proposal Amount	Questioned Costs	Final Contract Amount[a]
Ascent Environmental (18-001-B07)[b]			
Nelson Nygaard (18-001-B24)[b]			
Urban Design 4 Health (18-027A-C01)	$329,850	$62,370	$149,995
Esri, Inc. (18-040-C01)	$2,184,827	$43,131	$2,040,000
Alta Planning + Design (19-019-C01)[b]			
Community Partners (19-020-C01)[b]	$359,027	$4,284	$358,953
Fehr & Peers (19-021-C01)[b]			
Estolano LeSar Advisors (19-027-C01)[b]			
Totals	**$2,873,704**	**$109,785**	**$2,548,948**

[a]Questioned costs are not always sustained for various reasons, such as removal of subconsultants, shifting work to the prime consultant, and consultants providing additional information after a preaward review, among other things. Also, contract negotiations can further reduce consultant costs.

[b]Internal Audit completed a preaward review for these contracts, but final cost is still being negotiated. As such, amounts have not been included.

Internal Audit also reviewed consultant information submitted for a proposal, but the consultant was unable to provide the requested information to support proposal costs and demonstrate its ability to meet SCAG contracting requirements.[1]

Preaward reviews are performed as a non-audit service for Contracts staff. A request for Internal Audit assistance is typically based on a dollar threshold—if an overall proposal is $250,000 or more, if a direct labor rate is $100 per hour or more, if an overhead rate exceeds 150 percent, or if a fringe rate is 50 percent or higher. Internal Audit performs preaward reviews after SCAG selects a consultant proposal, but prior to contract negotiation and execution. The reviews inform and help Contracts staff with cost negotiations by identifying whether consultants' proposed rates are reasonable, allocable, and allowable as well as highlighting potential risks that may be posed by a consultant (e.g. inability to provide requested support for proposed costs, cannot meet contracting requirements, etc.).

B. Cost Estimate Comparison

Internal Audit compared a sample of independent cost estimates developed by SCAG project managers for the procurement of consultant services with corresponding consultant proposals to determine the extent to which they differed. Full results of the review are provided in a separate report as part of this package.

C. Follow-up to Prior Reports

At the January meeting, Internal Audit reported (1) on the extent to which SCAG employees and Regional Council (RC) members shared addresses with consultants/vendors, and (2) the frequency SCAG receives invoices from consultants and vendors.

[1]These services were performed for RFP 18-021.

With regard to the address comparison, Internal Audit found that the risk of a conflict of interest existing with vendors/consultants and employees or RC members appears low. However, the report noted that SCAG has not regularly updated its list of vendors to ensure parties not doing business with SCAG are no longer active in SCAG's accounting system. SCAG's financial auditors also noted this in their audit. SCAG's Chief Financial Officer (CFO) has indicated that Contracts staff collaborated with IT and Office of Regional Council staff to identify consultants/vendors SCAG has not paid since June 2014 as well as RC members that have not been paid since June 2016. Contracts staff then changed the status of 142 files in SCAG's vendor list (87 vendors and 55 elected officials) from active to inactive, and closed all open purchase orders associated with those files.[2] SCAG intends to review its vendor list on an annual basis starting in October 2019.

With regard to invoicing, Internal Audit reported that SCAG has not always received invoices regularly per contract terms. As per the January meeting, the Committee requested that an action plan regarding vendor invoicing and receipts management be added as a future agenda item. SCAG is updating its project management processes and procedures, to include consultant monitoring and invoicing. Finance staff have developed a survey for vendors that includes questions related to SCAG's invoicing process and procedures, among other things. The results of the survey are expected to inform any changes to processes and procedures related to consultant monitoring and invoicing. Internal Audit can inform the Committee about results at a future meeting.

C. Audit Standards

To gain insight regarding which audit standards other local/regional government auditors follow, Internal Audit reached out to audit staff at various agencies. Of particular interest was (1) whether the auditors followed *Generally Accepted Government Auditing Standards* (i.e. "Yellow Book" standards) or the *International Standards for the Professional Practice of Internal Auditing* (i.e. "Red Book" standards) promulgated by the Institute of Internal Auditors (IIA), and (2) the reasons for selecting which standards to follow.[3] Internal Audit contacted auditors from Metrolink, Orange County Transportation Authority (OCTA), the San Diego Association of Governments (SANDAG), the San Gabriel Valley Council of Governments (SGVCOG), and the County of Ventura Auditor-Controller's Office.

For the most part, the auditors followed Yellow Book standards. The one exception was the County of Ventura Auditor-Controller's Office, which follows Red Book standards for performance audits and contracts out for financial audits. Reasons for using Yellow Book standards included peer reviewer recommendations to use Yellow Book standards given the composition of the audit function and type of work it performs; the audit function has historically followed Yellow Book standards; Yellow Book standards were selected simply because they are government auditing

[2]Active status means that SCAG can generate purchase orders and enter transactions into the accounting system. Inactive status means that no purchase orders can be generated or transactions entered into the accounting system.

[3]Government Accountability Office (GAO), *Government Auditing Standards 2018 Revision*, GAO-18-568G, (July, 2018).

IIA, International Standards for the Professional Practice of Internal Auditing (Standards) (Jan. 2017).

standards; and the audit function elected to use Yellow Book standards because it was already structured in manner by which it could adhere to the standards.

All of the organizations have more than one auditor. SANDAG has the smallest number of auditors at two, while the County of Venture Auditor-Controller's Office has nine auditors.[4] Having more than one auditor has helped these organizations develop a sufficient quality assurance framework, which is required by both sets of audit standards.

Most of the auditors said the preaward reviews SCAG's Internal Audit department performs are akin to rate checks or cost analyses, and would be considered a non-audit (or consultative) service. Given that SCAG's Internal Audit department is tasked with these reviews, Red Book standards may better fit SCAG needs as they are less restrictive regarding the type of non-audit services an internal auditor can perform in relation to auditor independence.[5]

As noted above, the County of Ventura Auditor-Controller's Office follows Red Book standards. California Government Code requires city/county/district employees conducting audits follow Red Book or Yellow Book standards as appropriate.[6] The Auditor-Controller's Office has historically followed Red Book standards. However, it does not render an opinion on financial statements and outsources its financial audits. This is similar to SCAG in that SCAG hires an independent CPA firm to perform its annual financial audit, while Internal Audit focuses on smaller types of audits and preaward reviews.

The auditors suggested contacting the Association of Local Government Auditors (ALGA) for further suggestions regarding which standards would be a good fit for SCAG. As discussed at the January meeting, Internal Audit met with ALGA representatives last fall; they indicated that SCAG can decide which standards it chooses to use with regard to the Internal Audit function. Once a decision is made, SCAG's Audit Charter would need to be updated accordingly.

D. External Audits

SCAG has undergone multiple concurrent external audits. Vavrinek, Trine, Day, and Company, LLP (VTD) performed an audit on SCAG's FY 2017-18 financial statements. Caltrans completed an incurred cost audit as well as an audit of SCAG's indirect cost allocation plan (ICAP). The California Department of Finance (DOF) is finishing an audit of California Office of Traffic and Safety (OTS) grant PS1725 awarded to SCAG.

- <u>Financial Statement Audit</u>
  SCAG's external independent financial auditors provided the results their audit of SCAG's FY 2017-18 financial statements at the January 2019 Audit Committee meeting. VTD plan to start preliminary audit work on the 2018-2019 financial statements this spring and will provide the

[4]Metrolink has four auditors while OCTA has five. SGVCog had three auditors at the time Internal Audit contacted them; they now have two.
[5]Red Book standards define internal auditing as an independent assurance and consulting activity designed to add value to an organization's operations.
[6]California Government Code § 1236.

Committee with a presentation of their audit plan at next Audit Committee meeting. This is the third year VTD has performed the financial statement audit.

- Incurred Cost and ICAP Audits
  Caltrans completed an incurred cost audit of SCAG in September 2018.[7] SCAG management briefed the Committee about the findings during a special meeting in October 2018. Caltrans was supposed to provide SCAG with a corrective action plan in December 2018, but SCAG has not yet received it. The corrective action plan will provide actions/steps for SCAG to take in order to address audit findings and recommendations. Caltrans provided a copy of the plan to the Federal Highways Administration (FHWA) for input and review in January 2019. The Federal Transit Administration (FTA) is also reviewing the plan. SCAG will provide the Audit Committee with an update after it receives the corrective action plan from Caltrans.

  Caltrans completed its audit on SCAG's indirect costs allocation plan (ICAP), and released the accompanying report on January 9, 2019.[8] The report found SCAG to be in noncompliance with federal and state regulations as well as its own policy and procedures, among other things. It identified approximately $2.6 million in disallowed costs. As per the audit report, Caltrans Division of Transportation Planning is required to develop a corrective action plan addressing the report's findings and recommendations; this plan was to be completed by March 11, 2019. SCAG will provide an update on the ICAP audit and the steps it is taking to address the audit findings and recommendations in a separate report as part of this agenda package.

- OTS grant PS1725 Audit
  DOF started audit work in December 2018. The audit focused on whether grant expenditures claimed were in compliance with grant requirements as well as whether grant objectives were completed per grant requirements. DOF has completed their audit work with no findings, and is in the process of completing the accompanying audit report. SCAG is in the process of scheduling an exit conference with DOF, and will provide a copy of the final report to the Committee.

E. Ethics Hotline Monitoring

SCAG has not received any reports via the Ethics Hotline since the January meeting. All prior reports have been reviewed and all cases have been closed.

F. Upcoming Audit Committee Meetings

The next Committee meeting is scheduled for Tuesday June 11 at 10:00 A.M. However, given that Committee membership is expected to change following this month's meeting, and SCAG wants to ensure all members can attend meetings, the Committee will need to determine what time frames are preferable so SCAG can develop a schedule for future meetings. SCAG would also like to receive Committee input regarding preferred dates and times for the June meeting.

[7]Caltrans, *Southern California Association of Governments Incurred Cost Audit*, (Sacramento, CA: Sept. 21, 2018).
[8]Caltrans, *Southern California Association of Governments Indirect Cost Allocation Plan Audit*, (Sacramento, CA: Jan. 9, 2019).

FISCAL IMPACT:
None