



SOUTHERN CALIFORNIA
**ASSOCIATION OF
GOVERNMENTS**

Main Office

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Los Angeles, California
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www.scag.ca.gov

Officers

President
Carl Morehouse, San Buenaventura

First Vice President
Cheryl Viegas-Walker, El Centro

Second Vice President
Michele Martinez, Santa Ana

Immediate Past President
Greg Pettis, Cathedral City

**Executive/Administration
Committee Chair**

Carl Morehouse, San Buenaventura

Policy Committee Chairs

Community, Economic and
Human Development
Margaret Finlay, Duarte

Energy & Environment
Deborah Robertson, Rialto

Transportation
Alan Wapner, San Bernardino
Associated Governments

MEETING OF THE

AUDIT COMMITTEE

***Tuesday, March 17, 2015
1:00 p.m. – 2:30 p.m.***

**SCAG Offices
818 W. 7th Street, 12th Floor
Policy Committee Rm. A
Los Angeles, CA 90017
(213) 236-1800**

Teleconference and Videoconference will be available

(Location information included in packet)

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 summers@scag.ca.gov.

Agendas & Minutes for the Audit Committee are also available at:

www.scag.ca.gov/committees.htm

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) 236-1993. We request at least 72 hours (three days) notice to provide reasonable accommodations. We prefer more notice if possible. We will make every effort to arrange for assistance as soon as possible.

Audit Committee Membership

March 17, 2015

Members

1. Hon. Michele Martinez, Santa Ana, (**Chair**)
2. Hon. Carl Morehouse, San Buenaventura
3. Hon. Cheryl Viegas-Walker, El Centro
4. Hon. Greg Pettis, Cathedral City
5. Hon. Glen Becerra, Simi Valley
6. Hon. Margaret Finlay, Duarte, (**Vice-Chair**)
7. Hon. Edward H. J. Wilson, Signal Hill

Representing

District 16, SCAG, 2nd Vice-President
District 47, SCAG, President
District 1, SCAG, 1st Vice-President
District 2, SCAG, Imm. Past President
District 46,
District 35
Gateway Cities COG

Teleconference Locations

Hon. Cheryl Viegas-Walker
Rabobank, N.A.
1498 Main Street
El Centro, CA 92243

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

Hon. Glen Becerra
c/o Metropolitan Transportation Authority
One Gateway Plaza
19th Floor, Room 19-42
Los Angeles, CA 90012

Hon. Margaret Finlay, Vice-Chair
2221 Rim Road
Duarte, CA 91008

Videoconference Locations

Orange County SCAG Office
600 South Main, Suite 906
Orange, CA 92863

Hon. Michele Martinez, Chair

Ventura County SCAG Office
950 County Square Drive
Suite 101
Ventura, CA 93003

Hon. Carl Morehouse



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AUDIT COMMITTEE AGENDA MARCH 17, 2015

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. Michele Martinez, 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

CONSENT CALENDAR

Approval Items

- | | | | |
|--|-------------------|--|----------|
| 1. <u>Minutes of the November 24, 2014 Meeting</u> | Attachment | | 1 |
|--|-------------------|--|----------|

ACTION ITEMS

- | | | | |
|--|-------------------|---------------|----------|
| 2. <u>Fiscal Year (FY) 2014-15 External Financial Audit</u>
<i>(Basil Panas, Chief Financial Officer)</i> | Attachment | 30 min | 5 |
|--|-------------------|---------------|----------|

Recommended Action: Provide direction to SCAG’s external independent auditors concerning their audit of the fiscal year ending June 30, 2015.

- | | | | |
|---|-------------------|---------------|-----------|
| 3. <u>Peer Review of Internal Audit Function</u>
<i>(Basil Panas, Chief Financial Officer)</i> | Attachment | 10 min | 25 |
|---|-------------------|---------------|-----------|

Recommended Action: Provide direction concerning a Peer Review of SCAG’s Internal Audit function.

INFORMATION ITEMS

- | | | | |
|---|-------------------|---------------|-----------|
| 4. <u>Internal Audit Status Report</u>
<i>(Richard Howard, Internal Auditor)</i> | Attachment | 10 min | 27 |
|---|-------------------|---------------|-----------|



AUDIT COMMITTEE AGENDA MARCH 17, 2015

		<i>TIME</i>	<i>PG#</i>
5. <u>Internal Control Review</u> <i>(Richard Howard, Internal Auditor)</i>	Attachment	10 min	29
6. <u>Project Management Audit</u> <i>(Richard Howard, Internal Auditor)</i>	Attachment	15 min	35
7. <u>Risk Management Evaluation Update</u> <i>(Basil Panas, Chief Financial Officer)</i>	Attachment	10 min	41

STAFF REPORT

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 Audit Committee meeting is scheduled for Tuesday, June 9, 2015 at 1:00 p.m. at the SCAG Los Angeles Office.

Audit Committee
of the
Southern California Association of Governments

November 24, 2014

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. Carl Morehouse, San Buenaventura

District 47, SCAG President
(Via Videoconference)

Hon. Cheryl Viegas-Walker, El Centro

District 1, SCAG 1st Vice-President
(Via Videoconference)

Hon. Glen Becerra, Simi Valley

District 46

Hon. Edward H. J. Wilson, Signal Hill

Gateway Cities COG
(Via Teleconference)

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

District 35

Hon. Leroy Mills, Cypress

District 18 (Via Videoconference)

Members Not Present

Hon. Michele Martinez, (**Chair**)

District 16, SCAG 2nd Vice-President

Hon. Greg Pettis, Cathedral City

District 2, SCAG Imm. Past President

CALL TO ORDER & PLEDGE OF ALLEGIANCE

Hon. Margaret Finlay, Vice-Chair, called the meeting to order at 10:07 a.m.

ROLL CALL

A roll call was taken at 10:08 a.m. It was determined that a quorum was present.

PUBLIC COMMENT PERIOD

None.

REVIEW and PRIORITIZE AGENDA ITEMS

Joann Africa, Chief Counsel, advised that Agenda Item No. 5 was inadvertently placed under Information Items. Ms. Africa requested that the Committee consider and act upon Item No. 5 as an action item.

Audit Committee
of the
Southern California Association of Governments

November 24, 2014

Minutes

CONSENT CALENDAR

Approval Items

1. Minutes of June 10, 2014

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

AYES: Finlay, Mills, Viegas-Walker, and Wilson

NOES: None

ABSTAIN: Morehouse and Becerra

INFORMATION ITEMS

2. FY 2013-14 Preliminary Audit Report

Basil Panas, Chief Financial Officer, introduced Gilbert Vasquez, Managing Partner, and Ms. Linda Narciso, Audit Director, Vasquez & Company, LLC, SCAG's outside independent auditors who presented the FY 2013-14 Preliminary Audit Report.

Mr. Vasquez provided a brief overview of the presentation. Ms. Narciso provided a summary of the FY 2013-14 preliminary audit results which included the following analysis:

- Summary of Audit Results
- Financial Statements
- Report on Internal Control Structure and Compliance with Laws & Regulations
- Single Audit

Ms. Narciso described the audit scope of key areas of emphasis, and risk assessment procedures, which included, but was not limited to, fraud considerations, IT System Review, Review of Form 700 (Statement of Economic Interests), Procurement, and the Single Audit testing procedures.

Ms. Narciso noted two (2) areas of findings in the IT System review: Formalization of SCAG's Disaster Recovery Plan and Password Requirements. Catherine Kirschbaum, Chief Information Officer, commented that the recommendations listed have been addressed and is currently awaiting management's final approval. She noted that the password complexity process and policies was approved by the IT Steering Committee and is currently being updated. Staff will bring an updated status report to the Audit Committee when completed.

Staff and the audit team responded on the comments and questions expressed by the Committee, including comments pertaining to upcoming review of the Regional Council Policy Manual which could be modified to ensure compliance with the RC members reimbursement process. Ms. Narciso noted that testing for this area of emphasis will also be addressed in next year's audit.

Audit Committee
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Southern California Association of Governments

November 24, 2014

Minutes

Basil Panas, CFO, provided a brief explanation on how GASB 68 will affect future accounting and financial reporting for pensions. Details of the new policy will be provided to the Regional Council at a later date.

At the conclusion of the presentation, Ms. Narciso stated that there was an Unmodified Opinion – or “Clean” Opinion on SCAG’s financial statements, Internal Controls and Compliance. The Auditors’ Required Communication to the Committee was also presented.

The Audit Committee members and Hasan Ikhata, Executive Director, congratulated SCAG’s financial staff and the audit team for their efforts in developing and presenting a comprehensive audit program.

3. Procurement-Related Findings Follow-up Report

Leyton Morgan, Contracts Manager, provided a brief update and status of the procurement related-findings from the recent Federal Certification report issued by the Federal Transit Administration (FTA) and the Federal Highway Administration (FHWA) in August 2014. He noted that Hon. Cheryl Viegas-Walker, during the October 2, 2014 Executive Administration Committee meeting requested a follow-up report to be presented at the next Audit Committee meeting. Mr. Morgan went over the procurement-related items noted in FTA/FHWA’s Certification report from in the respective status, noting how staff had completed the minor recommendations noted in the report.

Hon. Cheryl Walker thanked staff for their prompt review and responses to the recommendations.

4. Internal Audit Status Report

Richard Howard, Internal Auditor, discussed highlights of the Internal Audit Report and provided an update on the following:

- Nine (9) pre-award contract audits that were completed since the last Audit Committee meeting on June 20, 2014; and
- The status of the Project Management audit and current review of eight (8) projects. February 2014.

Mr. Howard provided additional details concerning how deliverables of the current projects were being managed. After further discussion from the Committee members and from staff, Mr. Howard was asked to present an updated Project manual at the next Audit Committee meeting.

ACTION ITEM

5. Internal Control Framework

Richard Howard, Internal Auditor, requested approval of SCAG’s updated Internal Control System. As noted and previously approved at the December 2013 Audit Committee meeting, this System was prepared in accordance with the guidelines from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. COSO was established in 1992 to set up a uniform system of internal controls.

Audit Committee
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Southern California Association of Governments

November 24, 2014

Minutes

There were no additional discussions or comments made on this item.

A MOTION was made (Becerra) and SECONDED (Mills) to approve staff's recommendation. The motion was passed by the following vote:

AYES: Finlay, Becerra, Mills, Morehouse, Viegas-Walker, and Wilson
NOES: None
ABSTAIN: None

6. Financial Transparency Update Report

Basil Panas, Chief Financial Officer, provided a brief update of SCAG's financial transparency webpages. He asked the Committee to review and provide comments on the enhanced Financial Transparency web pages which were included in the agenda packet.

The Committee thanked staff for their efforts on the development of this project.

STAFF REPORT

Ms. Catherine Kirschbaum, Chief Information Officer, provided a brief update of SCAG's Business Resumption Activities, including an update on finalizing the contract for Blackboard Connect, an emergency notification and broadcast system, whereby notifications are sent by phone, text message and email.

SCAG staff responded to the comments and questions expressed by the Committee members.

FUTURE AGENDA ITEMS

There were no future agenda items requested.

ANNOUNCEMENTS

The Audit Committee members and SCAG staff recognized and thanked Hon. Leroy Mills for his outstanding service and contributions.

ADJOURNMENT

Hon. Margaret Finlay, Vice-Chair, adjourned the meeting at 11:31 a.m. Future meeting dates for the 2015 Audit Committee will be disseminated at a later date.

Minutes Approved by:



Basil Panas, CFO
Staff to the Audit Committee

REPORT

DATE: March 17, 2015
TO: Audit Committee
FROM: Basil Panas, Chief Financial Officer, 213-236-1817, panas@scag.ca.gov
SUBJECT: Fiscal Year (FY) 2014-15 External Financial Audit

RECOMMENDED ACTION:

Provide direction to SCAG’s external independent auditors concerning their audit of the fiscal year ending June 30, 2015.

EXECUTIVE SUMMARY:

SCAG’s external independent auditor will present the FY 2014-15 audit plan and receive Committee direction.

STRATEGIC PLAN:

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

BACKGROUND:

SCAG’s external independent auditors, Vasquez and Company, will commence their preliminary work soon for the audit of SCAG’s FY 2014-15 financial statements. They will discuss their audit plan and receive input and questions from the Committee.

FISCAL IMPACT:

None.

ATTACHMENT:

External Financial Audit Plan

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Members AICPA Division of Firms ♦ Center for Public Company Audit Firms ♦ Registered with Public Company Accounting Oversight Board
801 S. Grand Avenue, Suite 400, Los Angeles, CA 90017-4646 ♦ Member of the Government Finance Officers Association
♦ (213) 873-1700 ♦ Fax (213) 873-1777 ♦ www.vasquezcpa.com
Contact: Mr. Gilbert Vasquez, CPA ♦ Dated: March 17, 2015

March 17, 2015

Audit Committee
Southern California Association of Governments
818 West Seventh Street, 12th Floor
Los Angeles, CA 90017-3435

Dear Members of the Audit Committee:

We are pleased to have the opportunity to meet with you to present our plan for the audit of Southern California Association of Governments for the year ending June 30, 2015.

This presentation has been prepared to discuss the audit.

We look forward to meeting with you to present this information, address your questions and discuss any other matters of interest to the Audit Committee.

Please feel free to contact me at (213) 873-1706 with any questions you may have.

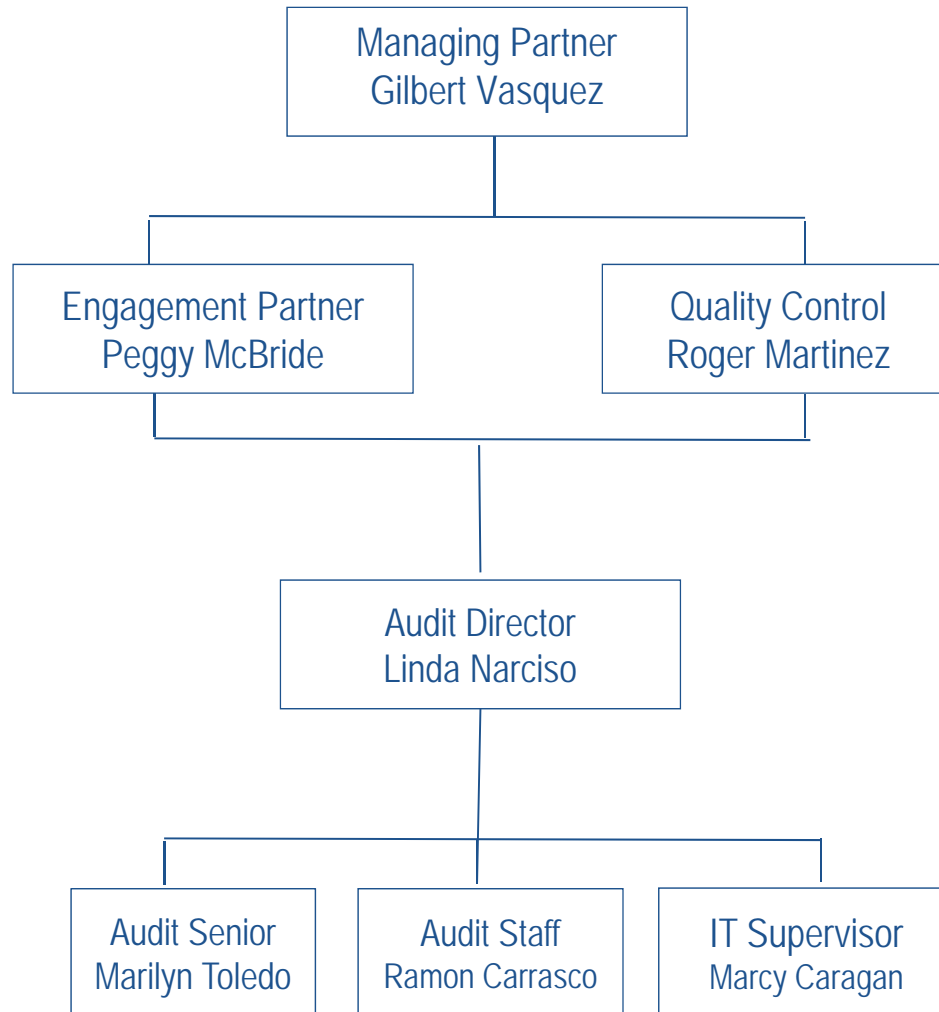
Very truly yours,

Peggy McBride
Engagement Partner
Vasquez & Company LLP

AGENDA

- The Audit Team
- Scope of Services
- Levels of Assurance
- Audit Process
- SCAG and Vasquez Expectations
- Areas of Emphasis and Planned Audit Approach
- Independence
- Audit Timeline
- New GASB Pronouncements and other Developments
- Questions

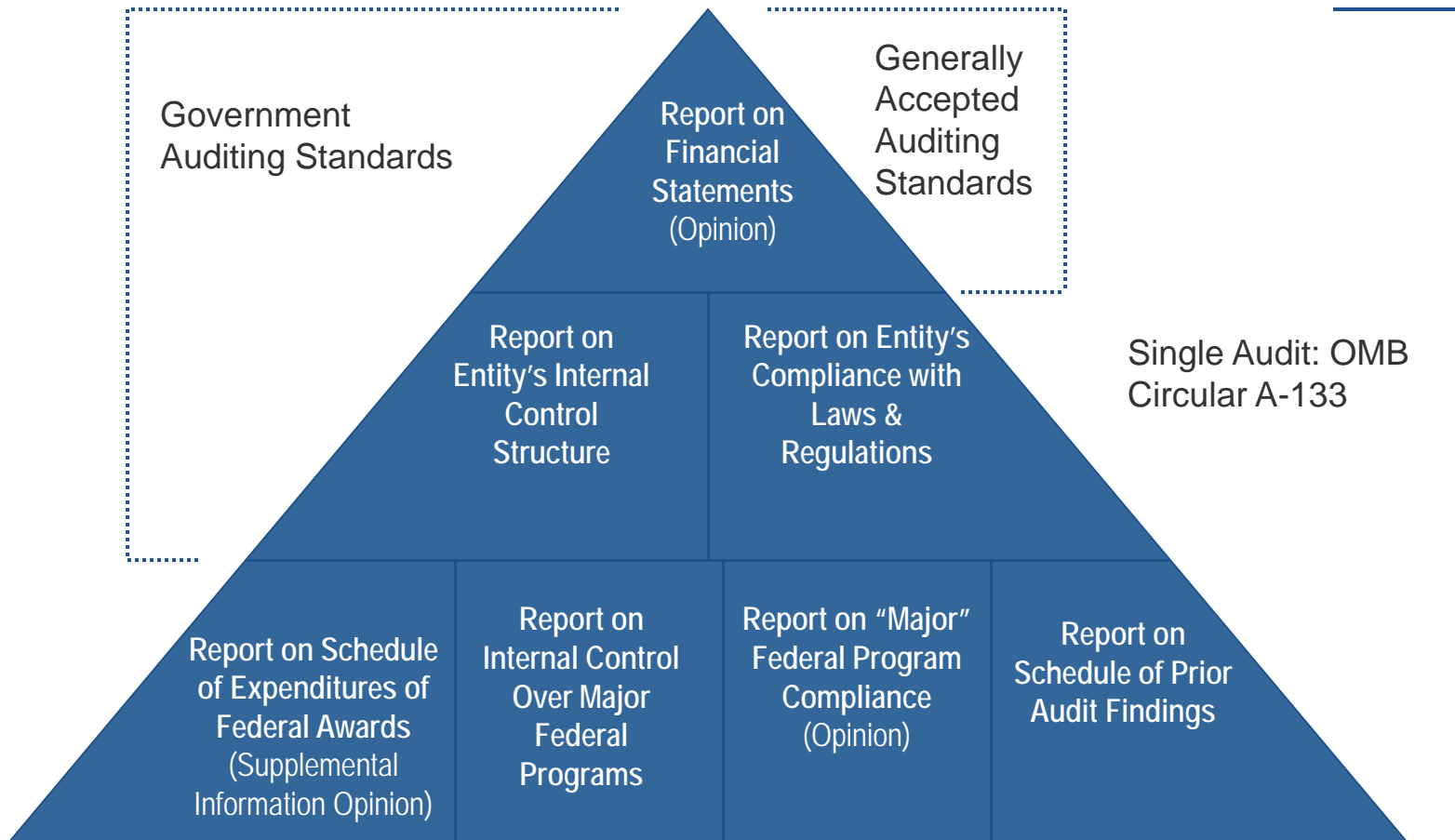
Audit Team



SCOPE OF SERVICES

- Report on Financial Statements
- Report on Compliance and Internal Controls Required by Generally Accepted Governmental Auditing Standards
- Report on Schedule of Expenditure of Federal Awards and on Compliance and Internal Controls as Required by Office of Management and Budget (OMB) Circular A-133

LEVELS OF ASSURANCE



AUDIT PROCESS

- Planning and updating our knowledge of the organization
- Preliminary risk assessments
 - Fraud risks identification
 - Cash and cash equivalents
 - Revenue, accounts receivable and deferred revenue
 - Expenditures and accounts payable
 - Capital assets
 - Pensions
- Compliance with the accounting and disclosure requirements of GASB 68

AUDIT PROCESS

- Internal controls testing
 - Billings and cash receipts
 - Procurement and cash disbursements
 - Payroll
 - IT general controls
 - GL maintenance/ closing process
 - Accounting and administrative controls over federal awards

AUDIT PROCESS

- Plan and perform substantive audit procedures
- Conclude as to sufficiency of audit evidence
- Conclude regarding critical accounting matters
- Evaluate the financial statements and disclosures
- Present audit results to Management and the Audit Committee
- Issue Auditor's Reports.

SCAG EXPECTATIONS

We have identified areas that we believe outline SCAG's expectations. Please let us know if you have additional expectations.

- Understand SCAG's business and operating environment.
- Communicate frequently and timely.
- Commit to frequent meetings to discuss critical accounting matters and discuss areas of judgment.
- Maintain high standards of quality with an efficient approach.
- Identify significant audit findings and propose adjustments in a timely manner.
- Perform audits under applicable standards.

VASQUEZ EXPECTATIONS

- Update our staff with the flow of information through the various departments and accounting systems and the system of internal controls.
- Provide requested audit schedules, supporting information and confirmation requests of third parties in a timely manner.
- Take responsibility for all accounting decisions.
- Continue to provide normal and reasonable access to accounting personnel.
- Assist in preparation of the Comprehensive Annual Financial Report (CAFR) and footnotes and take responsibility for preparation of SCAG's Financial Statements*.
- Prepare the management's discussion and analysis, transmittal letter and statistical tables for the CAFR.
- Post appropriate closing entries to minimize the number of audit adjusting entries required.
- Disclose all known or suspected fraud or illegal acts affecting SCAG.
- Complete Vasquez & Company LLP Client Survey Questionnaire.

* If we assist in the preparation of the financial statements SAS 115 requires that we evaluate if it is a control deficiency, a significant deficiency or a material weakness. Further, you will still need to take responsibility for the financial statements.

AUDIT AREAS OF EMPHASIS AND PLANNED APPROACH

Audit Focus Area	Planned Approach
Cash and cash equivalents	<ul style="list-style-type: none"> • Confirm cash and investment balances at year end. • Test bank reconciliation statements. • Test controls over cash receipts and disbursements.
Revenue, accounts receivable and deferred revenue	<ul style="list-style-type: none"> • Confirm selected receivables at year end. • Test subsequent collections and perform search for unrecorded revenues. • Perform analytical procedures on revenue accounts. • Test for proper revenue recognition.
Expenditures and accounts payable	<ul style="list-style-type: none"> • Perform analytical procedures on expenditure accounts. • Perform search for unrecorded liabilities.
Capital assets	<ul style="list-style-type: none"> • Test and evaluation propriety of additions during the year. • Perform test of reasonableness of depreciation.

AUDIT AREAS OF EMPHASIS AND PLANNED APPROACH

Audit Focus Area	Planned Approach
Procurement	<ul style="list-style-type: none"> • Perform test of controls over procurement.
Compliance with grant agreements and OMB Circular A-133 (Uniform Guidance for awards received after December 26, 2014)	<ul style="list-style-type: none"> • Test compliance with grant agreements and the requirements set forth in the OMB A-133 Compliance Supplement (Uniform Guidance, if applicable) • Test internal accounting and administrative controls over compliance with major program requirements.
Fraud	<ul style="list-style-type: none"> • Inquire of selected management and staff regarding their knowledge of actual, allegations or suspicions of fraud. • Review Form 700 (Statement of Economic Interests) of selected management and Regional Council members.
Pension	<ul style="list-style-type: none"> • Review accounting and reporting of pension liability in accordance with GASB 68

INDEPENDENCE

There are no relationships between any of our representatives and SCAG that in our professional judgment may reasonably be thought to bear on independence.

Vasquez & Company LLP meets the independence requirements of the Government Auditing Standards (2011), as published by the United States Government Accountability Office (“Yellow Book”) as it relates to SCAG.

AUDIT TIMELINE

Description	Responsibility	Scheduled Date
Entrance Meeting (presentation of the audit plan to the Audit Committee)	V&Co	March 17, 2015
Entrance meeting with Finance - Interim Work	V&Co/SCAG	June 1, 2015
Interim Work	V&Co	June 1 to June 12, 2015
Entrance conference - Year End	V&Co/SCAG	September 21, 2015
Year End Fieldwork	V&Co	September 21 to October 23, 2015
Exit meeting	V&Co/SCAG	October 23, 2015
Draft report	V&Co	October 30, 2015
Presentation to the Audit Committee	V&Co	November 2015
Final report	V&Co	December 2015

NEW GASB PRONOUNCEMENTS AND OTHER DEVELOPMENTS

GASB PRONOUNCEMENTS:

GASB 68 – Accounting and Financial Reporting for Pension – an amendment of GASB Statement No. 27. (effective 2015 audit)

GASB 69 – Government Combinations and Disposals of Government Operations (effective for 2015 audit)

GASB 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68 (effective for 2015 audit)

GASB 72 – Fair Value Measurement and Application (effective for 2016 audit)

UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS

- Single audits for years beginning on or after January 1, 2015 – audit threshold will be \$750,000

QUESTIONS AND DISCUSSION

THANK YOU!

We look forward to working closely with you and management during the FY 2014-2015 audit.

CONTACT INFORMATION

➤ Gilbert Vasquez

Email Address: g_vasquez@vasquezcpa.com

Telephone No.: (213) 873-1700 ext.200

➤ Peggy McBride

Email Address: p_mcbride@vasquezcpa.com

Telephone No.: (213) 873-1700 ext.206

➤ Linda Narciso

Email Address: l_narciso@vasquezcpa.com

Telephone No.: (213) 873-1700 ext.243

REPORT

DATE: March 17, 2015

TO: Audit Committee

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

SUBJECT: Peer Review of Internal Audit Function

RECOMMENDED ACTION:

Provide direction concerning a Peer Review of SCAG's Internal Audit function.

EXECUTIVE SUMMARY:

The Committee previously directed staff to proceed with a Peer Review of the Internal Audit function. To date the agreed-upon approach of using the Association of Local Government Auditors (ALGA) to conduct the review has not yielded any results therefore staff is presenting options for the path forward.

STRATEGIC PLAN:

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

BACKGROUND:

At the May 15, 2012 Audit Committee meeting, the Committee directed staff to have a Peer Review of the Internal Audit function conducted. Staff determined that the best agency to perform the Peer Review would be the Association of Local Government Auditors since they specialize in that activity and, being a volunteer organization, were the lowest cost option. ALGA set several preconditions for SCAG to qualify for a Peer Review as follows:

- 1- **Become a member of ALGA.** SCAG joined ALGA in 2012 and is still currently a member. The membership dues are \$185.00 annually.
- 2- **Adopt the Generally Accepted Government Auditing Standards (GAGAS).** The Committee adopted GAGAS on June 26, 2012.
- 3- **Use ALGA's Peer Review Guide for two years.** SCAG was required to use this Guide to perform a self-assessment and to conduct its Internal Audit work in accordance with ALGA's standards for a period of one year. SCAG began doing this on July 1, 2012. SCAG was later advised by ALGA that the required period of self-assessment and compliance was two years.
- 4- **Prepare a Policies and Procedures Manual.** SCAG prepared a manual in conjunction with its self-assessment and it was adopted by the Committee on November 13, 2012.
- 5- **Participate in a Peer Review of another agency.** Richard Howard worked on the Peer Review of the Internal Audit Department at the City of Houston in October 2013.

REPORT

Despite meeting all the preconditions established by ALGA, SCAG has been unable to secure a start date for its Peer Review by ALGA. Staff has been informed that it is not unusual for several years to pass before a new member gets its first Peer Review. Another issue seems to be that SCAG's Internal Audit Department consists of one person and very few ALGA members are one-person shops.

Due to the delay already experienced, staff has developed other options for the Committee to consider:

OPTION 1: Wait for ALGA to schedule SCAG's Peer Review. As mentioned above, no indication of when that might be is forthcoming from ALGA.

OPTION 2: Conduct a procurement to select a consultant to perform the Peer Review procedures. Since the cost of this work is likely under \$25,000, the elapsed time for this option would be four to seven weeks.

OPTION 3: Award a sole source contract to Vasquez and Co., LLP, to perform the Peer Review procedures. Vasquez is SCAG's current outside independent auditing firm and has indicated that it does not have any professional conflicts that would prevent it from performing this work. This would be the most expedient option and would require the Executive Director to make a finding that selecting Vasquez as the sole source vendor for these services is in the best interests of SCAG.

FISCAL IMPACT:

None at this time.

ATTACHMENTS:

None.

REPORT

DATE: March 17, 2015
TO: Audit Committee
FROM: Richard Howard, Internal Auditor, (213) 236-1905, howard@scag.ca.gov
SUBJECT: Internal Audit Status Report

RECOMMENDED ACTION:

For Information Only – No Action Required.

EXECUTIVE SUMMARY:

The Internal Auditor will describe the 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 November 24, 2014, three (3) pre-award audits of contract proposals were completed.

The three (3) consist of the following:

- | | | |
|---------------------------------|-------------|----------------------------------|
| 1. AECOM | \$65,030 | (Amendment) No questioned costs. |
| 2. ENVIRONMENTAL SCIENCE ASSOC. | \$149,999 | Questioned costs: \$4,307. |
| 3. EDELMAN INC. | \$1,548,620 | |

In addition, audits of SCAG's Internal Controls and Project Management were completed. Separate reports on both are included in the agenda for today's meeting.

Provision for a junior internal auditor position has been entered in the proposed budget for fiscal year 2015-2016 to ensure there is adequate staff coverage for the Internal Audit function.

FISCAL IMPACT:

None.

ATTACHMENTS:

None.

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REPORT

DATE: March 17, 2015

TO: Audit Committee

FROM: Richard Howard, Internal Auditor, (213) 236-1905, howard@scag.ca.gov

SUBJECT: Internal Control Review

RECOMMENDED ACTION:

For Information Only – No Action Required.

EXECUTIVE SUMMARY:

The Internal Auditor reviewed SCAG’s systems of internal control. No serious deficiencies were found but there were several 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.

BACKGROUND:

The City of Pasadena recently underwent a fraud investigation in connection with the alleged misappropriation of City funds in its Underground Utility Program. The misappropriation is estimated to be as much as \$6.4 million. The accounting firm KPMG conducted the fraud investigation and issued a report dated November 11, 2014.

The SCAG Chief Financial Officer obtained a copy of KPMG’s report and requested an internal audit of SCAG’s controls and procedures to determine if SCAG is vulnerable to any of the weaknesses cited in KPMG’s report. Therefore, an extensive review of SCAG’s internal controls and procedures was undertaken.

The review was performed in accordance with the appropriate professional standards related to staff independence, competence, due professional care, planning, working paper preparation and reporting, as presented in the Government Accountability Office’s (GAO’s) Government Auditing Standards (“Yellow Book”). I did not perform an audit of and do not plan to render an opinion on SCAG’s financial statements taken as a whole. These standards require that I plan and perform the review to obtain reasonable assurance that the data and records are free of material misstatements. A review includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. It also includes assessing the accounting principles used and significant estimates made by the auditee as well as evaluating the overall presentation. I believe that my review provides a reasonable basis for my opinion.

The scope of the evaluation was limited to selected financial data and consisted of a review of SCAG’s financial records, its accounting system and internal controls as of January 2015. The objective of the review was to determine if current controls are adequate to deter and detect any fraud activities by SCAG

REPORT

employees and consultants. The disbursement, purchasing, contracts, custody and transmittal of checks processes were reviewed.

RESULTS OF AUDIT

In my opinion, the current controls are adequate and reasonable to deter and detect any fraudulent activities by SCAG employees and consultants, with two exceptions. One is the procedure for verifying vendor changes of address and the other is the chain of custody of checks. Both of these issues are discussed later in this report. I also discovered several instances where procedures were not completely followed.

Review of Cash Disbursements and Accounting Procedures

Criteria

Only authorized and approved payments to approved vendors are permitted. These should be for legitimate SCAG business and be charged to the proper accounts.

Audit Procedures and Findings

The cash disbursements for the calendar year 2014 were reviewed. I reviewed a listing of all cash disbursements for the year. There were 3,840 payments, both checks and electronic transfers during the calendar year 2014. I reviewed all payments issued over \$100,000. There were 68 payments over \$100,000. The rest of the disbursements were stratified into two groups, \$5,000 to \$100,000 and the balance under \$5,000. A statistical sample of each of the two groups was reviewed. In total, 114 payments issued were reviewed out of a total of 3,840. The 114 represents \$11,849,282 disbursed out of a total for the year of \$26,937,793, or 43.9% of the total disbursed.

Results of the statistical sample did not reveal any fraudulent or unusual checks issued but there were some instances where procedures were not followed, as noted above. Some check copies had no copies of purchase orders attached. Some invoices had no verifications of footings and extensions on the vendor invoices and others had no receiving documents attached.

In addition to the above review of checks issued, a review of 203 Information Technology (IT) disbursements for the year was performed. A judgmental sample of 42 invoices out of the 203 was reviewed. There were similar findings to those noted above.

Account codings on invoices were reviewed to ensure that disbursements had a business purpose. No exceptions were noted.

A check was performed to insure that all vendors who should receive Federal Form 1099 were on the list of 1099s issued. No exceptions were noted. A review of Form 1099 procedures found that the desktop procedures document had not been updated since the new financial information systems were introduced in 2010.

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Potential Impact

Without correcting the above exceptions, there is the potential that SCAG could pay more than it should for certain goods and services.

Effect

The exceptions reviewed did not reveal any overpayments by SCAG.

Review of Vendors and Contracts/Purchasing

Criteria

Payments should be made only to approved vendors who are set up by the Contracts Department independent of Accounting personnel who are responsible for paying vendors.

Audit Procedures and Findings

I reviewed a list of vendors sorted by address. There were no duplicates of vendors, Regional Council members or employees having the same address.

I reviewed all vendors with foreign addresses. There were ten such vendors. Seven had current business with SCAG. The other three have been inactive and I recommended that these three be removed from the vendor list. SCAG Contracts Department has inactivated these three.

I also reviewed all out-of-state vendor lists to determine that they were business-related. No exceptions were noted.

Dun & Bradstreet (D&B) reports for subconsultants on open contracts were reviewed. There are 65 subconsultants. The reports indicate adequate financial capability for the subconsultants reviewed.

The review found that there is no verification of the authenticity of vendor address change requests. As a result, a new procedure has been instituted whereby SCAG's Contracts Department must verify that all change of address requests are genuine before honoring the request.

It was found that there were a number of old, inactive vendors still on the vendor lists. The Contracts Department has taken action to inactivate any vendors no longer active.

Pasadena did not use Purchase Orders for its Utility Department purchases. SCAG requires that all disbursements have Purchase Orders. I found that Purchase Orders were used for all disbursements that were tested.

It was discovered that two members of the Accounting Department had access to the system to set up new vendors. This was done initially because of a backlog in processing electronic funds transfer data for new vendors in the Purchasing area of Contracts. Only certain staff in the Contracts Department should have that access to the system. That access has been withdrawn from those two accountants.

Potential Impact

Vendor lists that are not regularly reviewed and purged and lack of separation of duties in establishing new vendors can generate vulnerabilities in the Purchasing system.

Effect

The review did not reveal any losses sustained by SCAG due to the above exceptions.

Chain of Custody

Criteria

Proper internal control requires that there be a separation between the person who requests a check and the person who mails it.

Condition

One of the findings in the Pasadena investigation was that the individual who initiated certain check requests was allowed to pick up the checks from Accounting. My review found that stipend payments to Regional Council members were being initiated and mailed by the same person in the Board Secretary's office. Also, certain check requests were being initiated by staff in the Executive Director's office and being picked up by the same person for mailing. Both of these procedures have been terminated.

Potential Impact

Interfering with the chain of custody of checks can be one way of embezzlement of an entity's funds. The initiator of a fraudulent check could get access to that check before it is mailed.

Effect

My review did not reveal any losses suffered by SCAG because of chain-of-custody violations.

Following are my recommendations based on the review:

1. All invoices should show evidence that extensions and footings have been verified.
2. Copies of purchase orders and receiving reports should be attached to all invoice packages.
3. Requests for changes of vendor address should be verified as to authenticity before being processed.
4. Accounting must retain physical control of all checks up until time of mailing. Any verifications that departments need to perform must be in the presence of an accountant.
5. Dormant vendors should be disabled in the accounting system.

REPORT

6. Procedures for reviewing and issuing Forms 1099 should be updated to conform to current processing procedures.
7. New vendors can only be set up by members of the Contracts Department. Exceptions can only be granted, in writing, by SCAG's Deputy Director of Administration or SCAG's Chief Financial Officer.

FISCAL IMPACT:

None.

ATTACHMENTS:

None.

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REPORT

DATE: March 17, 2015
TO: Audit Committee
FROM: Richard Howard, Internal Auditor, (213) 236-1905, howard@scag.ca.gov
SUBJECT: Project Management Audit

RECOMMENDED ACTION:

For Information Only – No Action Required.

EXECUTIVE SUMMARY:

The Internal Auditor reviewed SCAG's systems of Project Management. The projects were found to be adequately managed. However, there should be a Project Management Manual in use by all project managers.

STRATEGIC PLAN:

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

BACKGROUND:

I have completed a performance audit of the Southern California Association of Governments' (SCAG) system of project management. This audit was initiated due to project management being ranked by the Audit Committee as the highest priority in the risk assessment conducted in November 2013.

The objective of the audit was to determine if projects are being managed in accordance with federal, state and SCAG regulations and policies and in accordance with good business practices. The period under audit was from July 1, 2012 through June 30, 2014.

Fifty-five (55) projects both opened and closed during the period under audit. The 55 projects had a contract cost of \$6,438,210. I selected a sample of eight (8) projects to review in detail. The cost of these eight is \$1,972,974, or 30.6% of the total contract cost of \$6,438,210. Thus, I believe the sample selected is adequate and is indicative of SCAG's project management.

The eight projects sampled are:

Contract No. 10-038 OnBase Implementation & Support	\$490,835
Contract No. 12-001 Pomona N. Metrolink Station Plan	150,691
Contract No. 12-028 Metro Bicycle Data Clearinghouse	149,993
Contract No. 12-030 GEO Database	148,573
Contract No. 12-033 Foothill Bl/5 th St Bus Rapid Transit	379,291
Contract No. 13-017 Temporary IT Consultant	373,600
Contract No. 13-029 Support for Regional Demo. Modeling	43,645
Contract No. 14-001 WRCOG Climate Action	<u>236,346</u>
Total	<u>\$1,972,974</u>

REPORT

The performance audit was conducted in accordance with the appropriate professional standards related to staff independence, competence, due professional care, planning, working paper preparation and reporting, as presented in the Government Accountability Office's (GAO's) Government Auditing Standards ("Yellow Book"). These standards require that I plan and perform the audit evaluation to obtain reasonable assurance that the data and records are free of material misstatements. A performance audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. It also includes assessing the accounting principles used and significant estimates made by the audited entity as well as evaluating the overall presentation. I believe that my audit provides a reasonable basis for my opinion.

The scope of the performance audit was limited to selected financial data and consisted of a review of the projects that opened and closed within the period of July 2012 through June 2014. The audit included such tests as I considered necessary to accomplish the following objectives:

- Determine whether the projects were managed in accordance with federal, state and SCAG regulations and policies.
- Determine whether the projects were managed in accordance with good business practices.

RESULTS OF AUDIT

In my opinion, the projects sampled were adequately managed and complied with federal, state and SCAG regulations and policies and good business practices. The project managers prepared cost estimates prior to starting the projects, held regular project review meetings, reviewed and monitored costs and compared actual costs to budgets. Overall, the project managers appeared to be doing a competent job of managing projects. However, the audit revealed that updated formal policies and procedures for managing projects need to be implemented in a much more structured and uniform manner.

Criteria

Projects should be managed according to a plan and in a uniform manner so that the projects are efficient and economical. That is, the project's objectives are achieved without exceeding a reasonable cost. The process should meet a reasonable and informed person's expectations of what the process should be.

Audit Procedures and Findings

I inquired of the project managers what guidance they followed when managing their projects. I found that there are no current written policies and procedures for managing projects. SCAG does have a Project Management Manual but it is not updated or in current use.

Potential Impact

Because there is no single set of policies and procedures being followed, inconsistent project management practices can arise.

Effect

No material deficiencies in project management were found.

Detail of Projects Audited

Contract No. 10-038 OnBase Implementation & Support

The purpose of the contract was to assist SCAG in implementing the OnBase system to replace the current system of electronic content management. The original contract was executed in April 2010 for \$416,048 and was amended in June 2010 to increase to \$490,835. There were twenty-five (25) deliverables in the original scope of work of the contract. Fourteen (14) deliverables were not provided.

The reasons were that the software manufacturer provided the deliverables or the work was not authorized.

A cost estimate was prepared prior to the procurement starting. Project review meetings were held weekly. There were informal project notes but formal minutes of the project meetings were not prepared. Costs were tracked and reviewed in a spreadsheet to ensure they were within budget.

Contract No. 12-001 Pomona North Metrolink Station Area Plan

The purpose of the contract was to have the consultant assist in developing a transit-oriented Metrolink station in the city of Pomona. The contract is for \$150,691 and was executed in May 2012. There were thirteen (13) deliverables in the contract scope of work. All deliverables were received.

A cost estimate was prepared prior to the beginning of the procurement. Monthly phone calls were made in lieu of project review meetings. There are no minutes of the monthly phone calls. Costs were tracked based on consultant invoices and conversations with the City of Pomona.

Contract No. 12-028 Metro Bicycle Data Clearinghouse

The purpose of the contract was to have the consultant assist in developing standard survey methodologies for counting, surveying and forecasting bicyclist behavior on streets, dedicated bike facilities and access to transit. The contract is for \$149,993 and was executed in August 2012. There were thirty (30) deliverables in the contract scope of work. All deliverables were received.

A cost estimate was prepared prior to the beginning of the procurement. There were monthly project review meetings. There are no minutes of the monthly meetings. Costs were tracked based on comparisons between consultant invoices and the budget of the contract and comparisons between expenditures and progress reports.

Contract No. 12-030 GEO Database

The purpose of the contract was to have the consultant assist in providing professional advanced GIS services and support to help SCAG maintain and update its GIS data and Geodatabase management in a high quality manner. The contract is for \$148,573 and was executed in July 2012. There were twenty-three (23) deliverables in the contract scope of work. All deliverables were received.

A cost estimate was prepared prior to the beginning of the procurement. There were bi-weekly meetings along with weekly communications via phone, email and meetings. There are minutes of the meetings shown in the project deliverables. Costs were tracked by monthly comparisons made by the project manager on the invoices of the consultants and the proposed budget. The project manager contacted the consultant for any clarifications necessary.

Contract No. 12-033 Foothill Bl/5th Street Bus Rapid Transit

The purpose of the contract was to have the consultant assist in integrating transit and land use planning for the Foothill Boulevard/5th Street BRT corridor. The contract is for \$379,291 and was executed in September 2012. There were six (6) deliverables in the contract scope of work. All deliverables were received.

A cost estimate was prepared prior to the beginning of the procurement. There were weekly conference calls regarding project review and progress as well as Technical Advisory Committee (TAC) meetings about every two months. There are minutes of the weekly project review meetings. Costs were tracked first by accountant review of monthly invoices from the contractor. The invoices were then compared to budgeted costs and hours by the project manager and contract administrator.

Contract No. 13-017 Temporary IT Consultant

The purpose of the contract was to assist the Finance Division at SCAG to complete the assessment, design and development of the Finance Management Information System (FMIS).

A cost estimate was not available. The contract was executed in November 2012 for \$100,000 and was amended ultimately to \$373,600 in June 2014. The project manager held daily meetings on progress as well as formal bi-weekly meetings with minutes.

Contract No. 13-029 Support for Regional Demographic Modeling

The purpose of the contract was to have the consultant assist in providing advanced research and programming support for the purpose of enhancing SCAG's analytical and modeling capability as well as its forecasting accuracy. The contract is for \$43,645 and was executed in June 2013. There were eight (8) deliverables in the contract scope of work. All deliverables were received.

A cost estimate was prepared prior to the beginning of the procurement. The project manager assessed progress and reviewed the different projects as needed in lieu of project review meetings. Costs were

REPORT

tracked by negotiations with the consultant to lower the proposed costs. Finalized costs did not exceed the budget.

Contract No. 14-001 WRCOG Climate Action

The purpose of the contract was to have the consultant assist in guiding regional planning policy through the integration of land use planning and transportation investment decision-making. The contract is for \$236,346 and was executed in July 2014. There were thirty-four (34) deliverables in the contract scope of work. All deliverables were received.

A cost estimate was prepared prior to the beginning of the procurement. Costs were tracked based on accountant and project manager review. The project did not close prior to June 30, 2014.

RECOMMENDATIONS

I recommend that a Project Management Policies and Procedures Manual be adopted to ensure that there are uniform procedures to manage SCAG projects. Such a manual has recently been prepared and is in the review process.

I also recommend that a checklist, such as the one attached, be used by project managers.

FISCAL IMPACT:

None.

ATTACHMENTS:

Project Management Checklist.

PROJECT MANAGEMENT CHECKLIST			
	Yes	No	N/A
Project is in approved OWP			
Prepare a cost estimate			
Prepare a project schedule			
Prepare deliverables list			
Participate in Project Review Committees			
Set up project review meetings			
1			
2			
3			
Record minutes of project review meetings			
Record notice to proceed			
Review invoices			
Compare costs incurred to budget			
Prepare amendment materials/data, if any			
Record receipt of deliverables			
Record and review Final Report			
Review Project Closeout form			

REPORT

DATE: March 17, 2015
TO: Audit Committee
FROM: Basil Panas, CFO, 213-236-1817, panas@scag.ca.gov
SUBJECT: Risk Management Evaluation of July 24, 2014

For Information Only – No Action Required.

EXECUTIVE SUMMARY:

SCAG’s insurer, the California Joint Powers Insurance Authority, performed a risk management review of current practices and issued its report on July 24, 2014. This item provides an update on the action items.

STRATEGIC PLAN:

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

BACKGROUND:

SCAG buys its liability, workers’ compensation, automobile, and crime insurance from the California Joint Powers Insurance Authority (JPIA). As part of its program to contain loss exposures, the JPIA provides, as a free service, a periodic Risk Management Evaluation (RME) of those SCAG’s practices which impact its risk exposures. The most recent report was issued on July 24, 2014 and contained four action items. The status of the four action items is described in the attachment.

FISCAL IMPACT:

None.

ATTACHMENT:

Action Items from RME of July 24, 2014.

SCAG
Action Items from RME of
July 24, 2014

ACTION ITEM #	OBSERVATION	ACTION REQUIRED	STATUS
2014-001	The agency does not have a formal volunteer manual.	Develop and distribute a volunteer handbook to agency volunteers defining volunteer roles and responsibilities. Provide initial and refresher training to all volunteers, at least annually.	To be completed by the next Audit Committee meeting
2014-002	The agency has not conducted an ADA Self-Assessment.	Perform an ADA Self-Evaluation of all public facilities. By January 26,1993, each public entity was to have evaluated its services, policies and practices to determine their effect on accessibility of public facilities and modify them as necessary.	Initial assessment done. Documentation of assessment in progress and will be completed and submitted to the JPIA by next Audit Committee meeting.
2014-003	The agency has not developed an ADA Transition Plan.	Develop a formal ADA Transition Plan outlining the steps necessary to complete structural changes to facilities to achieve program accessibility.	Initial assessment done. Preliminary assessments says this does not apply however documentation of assessment in progress and will be completed and submitted to the JPIA by next Audit Committee meeting.
2014-004	The agency does not have a designated ADA Grievance Coordinator	Agencies with 50 or more employees must designate a responsible person to coordinate efforts to comply with ADA, carry out responsibilities, and establish grievance procedures that provide for prompt and equitable resolution of complaints alleging prohibited actions.	HR Manager is now the designated ADA Grievance coordinator