



SOUTHERN CALIFORNIA
**ASSOCIATION of
GOVERNMENTS**

Main Office

818 West 7th Street

12th Floor

Los Angeles, California

90017-3435

t (213) 236-1800

f (213) 236-1825

www.scag.ca.gov

Officers

President

Michele Martinez, Santa Ana

First Vice President

Margaret E. Finlay, Duarte

Second Vice President

Alan Wapner, Ontario

Immediate Past President

Cheryl Viegas-Walker, El Centro

**Executive/Administration
Committee Chair**

Michele Martinez, Santa Ana

Policy Committee Chairs

Community, Economic and

Human Development

Bill Jahn, Big Bear Lake

Energy & Environment

Carmen Ramirez, Oxnard

Transportation

Barbara Messina, Alhambra

MEETING OF THE

AUDIT COMMITTEE

Wednesday, June 15, 2016

1:30 p.m. – 3:30 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

June 2016

Members

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

Representing

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

Teleconference Locations

Hon. Michele Martinez
300 W. 2nd Street,
Santa Ana, CA 92701

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

Hon. Glen Becerra
1 Gateway Plaza, 19th Floor, Room 41
Los Angeles, CA. 90012

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

Videoconference Locations

Imperial County SCAG Office
1405 North Imperial Avenue
Suite 1
El Centro, CA 92243

Hon. Cheryl Viegas-Walker

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

Hon. Carl Morehouse



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

INSTRUCTIONS REGARDING TELECONFERENCE

Teleconference number provided under separate cover

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

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

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AUDIT COMMITTEE AGENDA JUNE 15, 2016

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. Alan Wapner, Chair)

ROLL CALL

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

REVIEW and PRIORITIZE AGENDA ITEMS

SELECTION OF VICE CHAIR

CONSENT CALENDAR

Approval Items

- | | | | |
|--|-------------------|--|----------|
| 1. <u>Minutes of the December 14, 2015 Meeting</u> | Attachment | | 1 |
|--|-------------------|--|----------|

ACTION ITEMS

- | | | | |
|--|-------------------|---------------|----------|
| 2. <u>Fiscal Year (FY) 2015-16 External Audit Work Plan</u>
<i>(Basil Panas, Chief Financial Officer)</i> | Attachment | 30 min | 7 |
|--|-------------------|---------------|----------|

Recommended Action: Provide direction to SCAG’s external independent auditors concerning their audit of the fiscal year ending June 30, 2016.

- | | | | |
|--|-------------------|---------------|-----------|
| 3. <u>Fiscal Year (FY) 2016-17 Internal Audit Work Plan</u>
<i>(Richard Howard, Internal Auditor)</i> | Attachment | 10 min | 35 |
|--|-------------------|---------------|-----------|

Recommended Action: Approve the Internal Audit Work Plan for FY 2016-17.



AUDIT COMMITTEE AGENDA JUNE 15, 2016

		<i>TIME</i>	<i>PG#</i>	
<u>INFORMATION ITEMS</u>				
4.	<u>Implementation of Peer Review Recommendations</u> <i>(Richard Howard, Internal Auditor)</i>	Attachment	15 min	37
5.	<u>Shared Drives Report</u> <i>(Richard Howard, Internal Auditor)</i>	Attachment	10 min	39
6.	<u>Separated Employee Access to SCAG Systems</u> <i>(Richard Howard, Internal Auditor)</i>	Attachment	10 min	43
7.	<u>Payroll Review</u> <i>(Richard Howard, Internal Auditor)</i>	Attachment	10 min	47
8.	<u>Internal Audit Status Report</u> <i>(Richard Howard, Internal Auditor)</i>	Attachment	5 min	49
9.	<u>Petty Cash Review</u> <i>(Richard Howard, Internal Auditor)</i>	Attachment	10 min	51

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 will be held on Tuesday, August 9, 2016, at 2:00 p.m., at the SCAG Los Angeles Office, unless otherwise noted.

Audit Committee
of the
Southern California Association of Governments

December 14, 2015

Minutes

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

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

Members Present

Representing

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

District 35, SCAG 2nd Vice-President

Hon. Cheryl Viegas-Walker, El Centro, (**Vice-Chair**)

District 1, SCAG President
(Via Videoconference)

Hon. Michele Martinez, Santa Ana

District 16, SCAG 1st Vice-President
(Via Teleconference)

Hon. Greg Pettis, Cathedral City

District 2, (Via Teleconference)

Hon. Edward H. J. Wilson, Signal Hill

Gateway Cities COG

Members Not Present

Hon. Glen Becerra, Simi Valley

District 46

Hon. Carl Morehouse, San Buenaventura

District 47, SCAG Imm. Past President

CALL TO ORDER & PLEDGE OF ALLEGIANCE

Hon. Margaret Finlay, Chair, called the meeting to order at 1:06 p.m. and asked Hon. Edward Wilson to lead all in the Pledge of Allegiance.

ROLL CALL

A roll call was taken at 1:10 p.m. It was determined that a quorum was present.

PUBLIC COMMENT PERIOD

None.

REVIEW and PRIORITIZE AGENDA ITEMS

There were no reprioritizations made.

SELECTION OF VICE CHAIR

By acclamation, Hon. Cheryl Viegas-Walker was nominated as the Vice Chair of the Audit Committee.

Audit Committee
of the
Southern California Association of Governments

December 14, 2015

Minutes

CONSENT CALENDAR

Approval Items

1. Minutes of the April 7, 2015 Special Meeting

A MOTION was made (Wilson) and SECONDED (Martinez) to approve the Consent Calendar Approval Items. The motion was passed by the following vote:

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

INFORMATION ITEMS

2. ALGA Peer Review Report

Basil Panas, Chief Financial Officer, introduced Mr. Mike Edmonds, representing the Association of Local Government Auditors (ALGA). Mr. Edmonds presented the Peer Review report which included an overview of the Government Auditing Standards, the Quality Control Standards and the ALGA Review Objectives. The full Peer Review Report was included in the agenda packet. He indicated that the review of SCAG's Internal Audit function resulted in a "Pass with Deficiency" opinion and a Management Letter, which highlighted suggestions for improvements and, areas where SCAG's internal auditing function excels.

Mr. Edmonds discussed the report findings, recommendations and guidance, as follows:

- Internal Auditor does not meet the Independence Standard for internal auditing;
- Internal Audit should be accountable to the head or deputy head of the organization;
- Policies and procedures should be developed to ensure independence from providing non-auditing services;
- Audit reports should have more well-defined audit objectives; Scopes and objectives reviewed were too broad;
- Monitoring and reporting on its quality control system; and applicable documentation of overall assessment of evidence;
- Appropriate language for citing compliance with Government Auditing Standards.

(At 1:35 p.m., Hon. Margaret Finlay, Chair, excused herself from the meeting. She asked Hon. Cheryl-Viegas-Walker, Vice Chair, to preside over the meeting.)

After discussion from the Committee members and SCAG staff, Hon. Viegas-Walker requested that Mr. Edmonds review the Internal Auditor's responses to the Peer Review report so that these issues could be addressed at the next Audit Committee meeting.

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Accordingly, Agenda items No. 3 and No. 4 were not discussed by the Committee and were postponed to the next Audit Committee meeting.

5. Fiscal Year (FY) 2014-15 Preliminary Financial Audit Report

Basil Panas, Chief Financial Officer, introduced Ms. Peggy McBride, Engagement Partner, and Ms. Linda Narciso, Audit Director, Vasquez & Company, LLC, (Vasquez) SCAG's outside independent auditors who presented the FY 2014-15 preliminary audit report. Ms. McBride described the audit scope key areas of emphasis, the risk assessment for new programs, and fraud procedures. She reported that SCAG would receive an Unmodified Opinion for its FY 2014-15 financial statements and Single Audit Report. Vasquez had several findings:

- An MOU between SCAG and three (3) subrecipients did not clearly identify CFDA title and number;
- Recommend that change of vendor address be verified as to the authenticity before being processed and logged;
- Employees are aware of the existence of the fraud hotline and/or reporting structure; and
- Form 700 procedural maintenance and filing required.

It was noted that due to changes next year in the single audit compliance requirements, enhanced procedures will be required to for future subrecipient awards.

During discussion, staff and the audit team responded on the comments and questions expressed by the Committee, including comments pertaining to a larger sample review of the Form 700 to be analyzed in future years for Regional Council members. Also discussed were the new financial reporting procedures for GASB 68 which resulted in a new line item that reflects the unfunded liability of pensions.

The Committee requested that a future agenda item be presented regarding SCAG's strategies for addressing the unfunded pension liability.

Debbie Dillon, Deputy Executive Director, commented that a Special EAC meeting had been scheduled for January 13, 2016 to address the GASB 68 liability, and to discuss other financial related topics. Ms. Dillon recommended that the results of the Special EAC discussion be brought to the next Audit Committee meeting.

At the conclusion of the audit presentation, Ms. Narciso reported that there was an Unmodified - "Clean" Opinion on SCAG's Internal Controls over Financial Reporting and Compliance.

3. Internal Audit Status Report

Richard Howard, Internal Auditor, discussed highlights of the Internal Audit Report. Mr. Howard introduced and welcomed Mr. Joshua Margraf, SCAG's new Assistant Internal Auditor.

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

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7. Vendor Survey

Richard Howard, Internal Auditor, provided an overview and background information on the Vendor Survey that was developed to address a complaint concerning SCAG's invoicing requirements and contract amendment process.

Committee members noted that the recommendations stemming from the Vendor Survey should be carried out by appropriate staff, and that these staff should also set time frames for implementing the recommendations. Internal Audit can review any progress made so as not to impact independence. During discussion, staff noted that staff is currently determining the date to implement the recommendations. Staff will provide a timeline and implementation report to the Committee at the next Audit Committee meeting.

8. 2016 Meeting Schedule

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

STAFF REPORT

Catherine Kirschbaum, Chief Information Officer, provided a brief report on the power outage experienced at the SCAG Los Angeles office, which led to a shut-down of the LA office on August 21, 2015. Ms. Kirschbaum noted that during the outage, there was no loss of data from SCAG's servers, which are located in the Las Vegas data center.

Ms. Kirschbaum discussed lessons learned and areas for improvement of SCAG's emergency preparedness and business resumption plans. She noted that the SCAG emergency team responded in a timely and appropriate manner. SCAG's Blackboard Connect system performed well, but more accurate and complete staff contact information was needed. She commented on the lack of coordination from the building personnel and security staff, and stated that recommendations to the building management/security are being discussed, including a suggestion that property management implement an automated notification system.

Currently, SCAG staff has identified the need for additional staff training on telework and home equipment capabilities and training on different types of emergency notifications and responses. Staff is currently working on this project. Ms. Dillon noted that there was no disruption to our modeling team's work during this busy RTP/SCS preparation cycle.

Hon. Viegas-Walker suggested that staff move forward with a plan for annual testing of SCAG'S Business Resumption activities. Staff concurred.

Audit Committee
of the
Southern California Association of Governments

December 14, 2015

Minutes

FUTURE AGENDA ITEMS

There were no future agenda items requested.

ANNOUNCEMENTS

There were no announcements made.

ADJOURNMENT

Hon. Cheryl-Viegas-Walker, Vice-Chair, adjourned the meeting at 2:40 p.m. The next regular meeting of the Audit Committee is scheduled for Tuesday, May 10, 2016 at 2:00 p.m., at the SCAG Los Angeles Office.

Minutes Approved by:



Basil Panas, CFO
Staff to the Audit Committee

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REPORT

DATE: June 15, 2016
TO: Audit Committee
FROM: Basil Panas, Chief Financial Officer, 213-236-1817, panas@scag.ca.gov
SUBJECT: Fiscal Year (FY) 2015-16 External Financial Audit

RECOMMENDED ACTION:

Provide direction to SCAG's external independent auditors concerning their audit of the fiscal year ending June 30, 2016.

EXECUTIVE SUMMARY:

SCAG's external independent auditor will present the FY 2015-16 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 2015-16 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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**Communication to the Audit Committee
The Planned Scope And Timing Of The Audit
Southern California Association of Governments
*Year ended June 30, 2016***

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

Dear Audit Committee members:

This letter is intended to communicate certain matters related to the planned scope and timing of our audit of Southern California Association of Governments' (SCAG) financial statements and compliance as of and for the year ending June 30, 2016.

Communication

Effective two-way communication between our Firm and the Audit Committee is important to understanding matters related to the audit and developing a constructive working relationship.

Your insights may assist us in understanding SCAG and its environment, identifying appropriate sources of audit evidence and providing information about specific transactions or events. We will discuss with you your oversight of the effectiveness of internal control and any areas where you request additional procedures to be undertaken. We expect that you will timely communicate to us any matters you consider relevant to the audit. Such matters might include strategic decisions that may significantly affect the nature, timing and extent of audit procedures, your suspicion or detection of fraud or abuse, or any concerns you may have about the integrity or competence of senior management.

We will timely communicate to you any fraud involving senior management and other fraud that causes a material misstatement of the financial statements, illegal acts, instances of noncompliance, or abuse that come to our attention (unless they are clearly inconsequential), and disagreements with management and other serious difficulties encountered in performing the audit. We also will communicate to you and to management any significant deficiencies or material weaknesses in internal control that become known to us during the course of the audit. Other matters arising from the audit that are, in our professional judgment, significant and relevant to you in your oversight of the financial reporting process will be communicated to you in writing after the audit.

Independence

Our independence policies and procedures are designed to provide reasonable assurance that our firm and its personnel comply with applicable professional independence standards. Our policies address financial interests, business and family relationships, and non-audit services that may be thought to bear on independence. For example, without our permission no partner or professional employee of Vasquez & Company LLP is permitted to have any direct financial interest or a material indirect financial interest in a client or any affiliate of a client. Also, if an immediate family member or



close relative of a partner or professional employee is employed by a client in a key position, the incident must be reported and resolved in accordance with firm policy. In addition, our policies restrict certain non-audit services that may be provided by Vasquez & Company LLP and require audit clients to accept certain responsibilities in connection with the provision of permitted non-attest services.

The Audit Planning Process

Our audit approach places a strong emphasis on obtaining an understanding of how your entity functions. This enables us to identify key audit components and tailor our procedures to the unique aspects of your operations. The development of a specific audit plan will begin by meeting with you and with management to obtain an understanding of business objectives, strategies, risks and performance.

As part of obtaining an understanding of your organization and its environment, we will obtain an understanding of internal control. We will use this understanding to identify risks of material misstatement and noncompliance, which will provide us with a basis for designing and implementing responses to the assessed risks of material misstatement and noncompliance. We will also obtain an understanding of the users of the financial statements in order to establish an overall materiality level for audit purposes. We will conduct formal discussions among engagement team members to consider how and where your financial statements might be susceptible to material misstatement due to fraud or error or to instances of noncompliance, including abuse.

The Concept of Materiality in Planning and Executing the Audit

We apply the concept of materiality in both planning and performing the audit, evaluating the effect of identified misstatements or noncompliance on the audit and the effect of uncorrected misstatements, if any, on the financial statements, forming the opinion in our report on the financial statements, and determining or reporting in accordance with *Government Auditing Standards* and other compliance reporting requirements. Our determination of materiality is a matter of professional judgment and is affected by our perception of the financial information needs of users of the financial statements. We establish performance materiality at an amount less than materiality for the financial statements as a whole to allow for the risk of misstatements that may not be detected by the audit. We use performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. Our assessment of materiality throughout the audit will be based on both quantitative and qualitative considerations. Because of the interaction of quantitative and qualitative considerations, misstatements of a relatively small amount could have a material effect on the current financial statements as well as financial statements of future periods. We will accumulate misstatements identified during the audit, other than those that are clearly trivial. At the end of the audit, we will inform you of all individual uncorrected misstatements aggregated by us in connection with our evaluation of our audit test results.

Our Approach to Internal Control and Compliance Relevant to the Audit

Our audit of the financial statements, including compliance, will include obtaining an understanding of internal control sufficient to plan the audit and determine the nature, timing and extent of audit procedures to be performed. An audit is not designed to provide assurance on internal control or identify significant deficiencies or material weaknesses. Our review and understanding of the entity's internal control is not undertaken for the purpose of expressing an opinion on the effectiveness of internal control.



We will issue reports on internal control related to the financial statements and major programs. These reports describe the scope of testing of internal control and the results of our tests of internal control. Our reports on internal control will include any significant deficiencies and material weaknesses in the system of which we become aware as a result of obtaining an understanding of internal control and performing tests of internal control consistent with the requirements of *Government Auditing Standards* issued by the Comptroller General of the United States, the Single Audit Act, and *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* at 2 CFR 200 (Uniform Guidance).

We will issue reports on compliance with laws, regulations, and the provisions of contracts or grant agreements. We will report on any noncompliance that could have a material effect on the financial statements and any noncompliance that could have a direct and material effect on each major program. Our reports on compliance will address material errors, fraud, abuse, violations of compliance requirements, and other responsibilities imposed by state and federal statutes and regulations and assumed contracts; and any state or federal grant, entitlement or loan program questioned costs of which we become aware, consistent with the requirements of the standards identified above.

Using the Work of Internal Auditors

As part of our understanding of internal control, we will obtain and document an understanding of your internal audit function. We will read relevant internal audit reports issued during the year to determine whether such reports indicate a source of potential error or fraud that would require a response when designing our audit procedures. Because internal auditors are employees, they are not independent and their work can never be substituted for the work of the external auditor. We may, however, alter the nature, timing and extent of our audit procedures based upon the results of the internal auditor's work or use the reports to provide direct assistance to us during the performance of our audit.

Timing of the Audit

We have scheduled preliminary audit field work starting on June 13, 2016 with final field work commencing the week of September 19, 2016. Management's adherence to its closing schedule and timely completion of information used by us in performance of the audit is essential to timely completion of the audit.

Closing

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to be of service to SCAG.

This communication is intended solely for the information and use of the Audit Committee, SCAG's management and is not intended to be and should not be used by anyone other than these specified parties.

Vasquez + Company LLP

**Los Angeles, California
June 2, 2016**



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: June 15, 2016

June 15, 2016

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, 2016.

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.

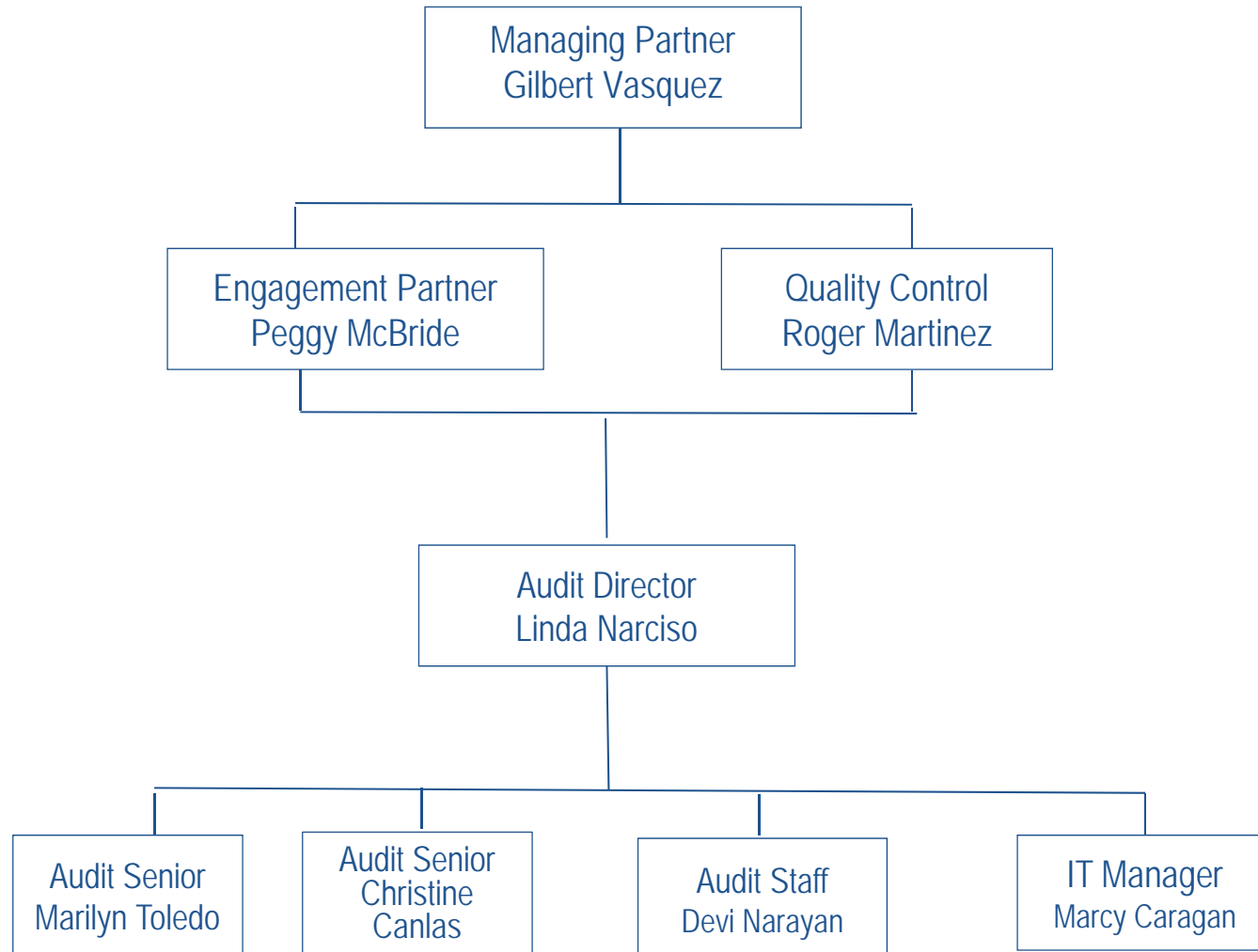
Very truly yours,

Peggy McBride
Engagement Partner
Vasquez & Company LLP

AGENDA

- Client Service Team
- Deliverables
- Audit Objectives
- Audit Process
- Responsibilities
- Areas of Emphasis and Planned Audit Approach
- Materiality
- Independence
- Audit Timeline
- New GASB Pronouncements
- Questions

Client Service Team



DELIVERABLES

- 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 the Uniform Guidance (The Single Audit)

AUDIT OBJECTIVES

- To express an opinion about whether the financial statements (prepared by management) are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America.
- To express an opinion on compliance for each of SCAG's major federal programs based on our audit of the types of compliance requirements with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.
- To issue a report on internal control deficiencies that are considered significant deficiencies and/or material weaknesses.

AUDIT PROCESS

- Planning and updating our knowledge of the organization
- Perform fraud inquiries and related procedures
- Preliminary risk assessments
 - Cash and cash equivalents
 - Revenue, accounts receivable and unearned revenue
 - Expenditures other than payroll and accounts payable
 - Capital assets
 - Payroll and employee benefits

AUDIT PROCESS

- Internal controls testing
 - Billings and cash receipts
 - Procurement and cash disbursements
 - Payroll and employee benefits
 - Treasury
 - 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.

RESPONSIBILITIES

Management is responsible for:

- Adopting sound accounting policies
- Fairly presenting the financial statements and supplementary information in conformity with GAAP
- Establishing and maintaining effective internal control over financial reporting (ICFR) and informing Vasquez of any significant deficiencies and material weaknesses in the design or operation of such controls of which it has knowledge
- Identifying and confirming that SCAG complies with laws and regulations applicable to its activities
- Evaluating subsequent events through the date the financials statements are issued or available to be issued

RESPONSIBILITIES

Management is responsible for:

- (a) informing Vasquez of significant vendor relationships in which the vendor is responsible for program compliance;
- (b) taking corrective action on audit findings, including the preparation of a summary schedule of prior audit findings and a corrective action plan, and
- (c) report distribution, including submitting the reporting package

- Providing Vasquez access to all persons within SCAG from whom we determine it necessary to obtain audit evidence, and all information of which management is aware that is relevant to the preparation of the financial statements and additional information that Vasquez may request for audit purposes

- Providing a written confirmation concerning representations made to Vasquez in connection with the audit

RESPONSIBILITIES

Management is responsible for:

- Designing and implementing programs and controls to prevent and detect fraud or abuse, and for informing Vasquez about all known, suspected or reported fraud or abuse affecting SCAG involving management, employees who have significant roles in internal control, and others where the fraud or abuse could have a material effect on the financial statements or compliance

RESPONSIBILITIES

Vasquez is responsible for:

- Conducting the audit in accordance with professional standards and complying with the Code of Professional Conduct of the AICPA and the ethical standards of the California State Board of Accountancy
- Planning and performing the audit with an attitude of professional skepticism
- Forming and expressing an opinion on the financial statements and on compliance for each of SCAG's major Federal programs
- Evaluating internal controls over financial reporting (ICFR) as a basis for designing audit procedures, but not for the purpose of expressing an opinion on the effectiveness of SCAG's ICFR
- Communicating to management and the Audit Committee all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that merit management's attention.

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. • Test controls over wire transfers
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. • Perform test of details based on data analytics (IDEA) • Perform test of controls over procurement
Capital assets	<ul style="list-style-type: none"> • Test and evaluate propriety of additions during the year. • Perform test of reasonableness of depreciation.

AUDIT AREAS OF EMPHASIS AND PLANNED APPROACH

Audit Focus Area	Planned Approach
Payroll and pension	<ul style="list-style-type: none"> • Perform analytical procedures on payroll. • Test data submitted to CalPERS. • Review accounting and reporting of pension liability in accordance with GASB 68
Compliance with grant agreements and Uniform Guidance	<ul style="list-style-type: none"> • Test compliance with grant agreements and the requirements set forth in the OMB Compliance Supplement • 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.

MATERIALITY

- Professional standards require that we exercise professional judgment when we consider materiality and its relationship with audit risk when determining the nature, timing, and extent of our audit procedures, and when evaluating the effect of misstatements.
- Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
- Materiality depends on the size and nature of the item or error judged in the particular circumstances of its omission or misstatement.
- Judgments about matters that are material to users of the FS are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

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 American Institute of Certified Public Accountants (AICPA), Code of Professional Ethics, *Government Auditing Standards* (2011), as published by the United States Government Accountability Office (“Yellow Book”), and the rules of the California State Board of Accountancy as they relate to SCAG.

AUDIT TIMELINE

Description	Responsibility	Scheduled Date
Entrance Meeting (presentation of the audit plan to the Audit Committee)	V&Co	June 15, 2016
Entrance meeting with Finance - Interim Work	V&Co/SCAG	June 13, 2016
Interim Work	V&Co	June 13 to 24, 2016
Entrance conference - Year End	V&Co/SCAG	September 19, 2016
Year End Fieldwork	V&Co	September 19 to October 21, 2016
Exit meeting	V&Co/SCAG	October 28, 2016
Presentation to the Audit Committee	V&Co	November 2016
Final report	V&Co	December 2016

NEW GASB PRONOUNCEMENTS

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

GASB 73 – Accounting and Financial Reporting for Pensions and Related Assets That are not Within the Scope of GASB 68, and Amendments to Certain Provisions of GASB 67 and 68 (effective for 2016 audit)

GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (effective for 2018 audit)

GASB 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments (effective for 2016 audit)

NEW GASB PRONOUNCEMENTS

GASB 79 – Certain External Investment Pools and Pool Participants (effective for 2016 audit, except for the provisions of paragraphs 18, 19, 23-26 and 40 which is effective for 2017 audits)

GASB 82 – Pension Issues – an Amendment of GASB 67, 68 and 73 (effective for 2017 audit)

QUESTIONS AND DISCUSSION

THANK YOU!

We look forward to working closely with you and management during the FY 2015-2016 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: June 15, 2016
TO: Audit Committee
FROM: Richard Howard, Internal Auditor, (213) 236-1905, howard@scag.ca.gov
SUBJECT: Internal Audit Work Plan

RECOMMENDED ACTION:

Approve the Internal Audit Work Plan For Fiscal Year 2016-2017.

STRATEGIC PLAN:

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

BACKGROUND:

The Internal Audit Policies and Procedures Manual provides that the Audit Committee review the Work Plan of the Internal Audit Department on an annual basis. Following is the proposed Audit Work Plan for the fiscal year 2016-2017:

	<u>Hours</u>
1. Perform preaward audits	800;
2. Review Information Technology processes and controls	400;
3. Review subrecipient monitoring, including subregions	120;
4. Review travel expenses	50;
5. Review Contracts and Procurement	170;
6. Review Planning Grants	200;
7. Develop and implement a Continuous Audit Program	500;
8. Perform internal audits and reviews of SCAG	650;
9. Audit Committee meetings	100;
10. Staff and Regional Council meetings	350;
11. Training	<u>160.</u>
Subtotal	3,500
Indirect	<u>660</u>
Total Hours	<u>4,160</u>

We respectfully request that you review the proposed Work Plan and approve it.

FISCAL IMPACT:

None.

ATTACHMENTS:

None.

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REPORT

DATE: June 15, 2016

TO: Audit Committee

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

SUBJECT: Implementation of Peer Review Recommendations

RECOMMENDED ACTION:

For Information Only – No Action Required.

EXECUTIVE SUMMARY:

In response to findings in a Peer Review of the Internal Audit Department in November 2015, Internal Audit has addressed the findings and recommendations.

STRATEGIC PLAN:

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

BACKGROUND:

In November 2015 the Association of Local Government Auditors (ALGA) performed a peer review of the Internal Audit Department and issued a report which noted that the Internal Auditor is not independent as required by Government Auditing Standards. SCAG reviewed the issue and, effective May 16, 2016, Internal Audit reports to the Executive Director of SCAG. This reporting relationship will continue until a new Chief Operating Officer (COO) is hired. At that point Internal Audit will report to the new COO. Prior to May 16th, Internal Audit inserted a disclaimer in its audit reports regarding the lack of independence.

The ALGA Peer Review team also issued a companion letter to its report to offer observations and suggestions to enhance Internal Audit's demonstrated adherence to Government Auditing Standards. The letter offered six (6) observations and recommendations which the Internal Audit department has addressed with changes to its Policies and Procedures Manual as described below.

1. *The Department lacks policies and procedures for assessing threats to independence related to providing nonaudit services.*

Internal Audit has strengthened its Policies and Procedures Manual dealing with threats to independence by providing nonaudit services. Internal Audit staff will assess and document the impact of prior nonaudit services if they are related to a current audit. Prior to performing a nonaudit service, Internal Audit staff will apply the conceptual framework [as outlined in Government Auditing Standards] to evaluate independence and will document the results of the evaluation.

2. *The Department has not developed a process to monitor its Quality Control System and summarize the results, at least annually.*

Internal Audit has added a procedure to the Policies and Procedures Manual to monitor, at least annually, the Quality Control System, analyzing and summarizing the results of the monitoring.

On an annual basis, Internal Audit staff will perform a Quality Control Review of work performed during the year. The auditors will document the results of the Quality Control Review.

- 3. The Department lacks formal policies and procedures for performing and documenting an overall assessment of the evidence used to support the findings and conclusions in the audit reports.*

Internal Audit's Policies and Procedures Manual, Section C.12, Quality Control, has been amended to provide that an auditor's evidence to support the audit report's findings, conclusions and recommendations must be reviewed and certified by another auditor in the Department.

- 4. The Department's audit reports do not have a separate section of the report defining the audit objectives scope and methodology. Also, two performance audits had overly broad objectives.*

Internal Audit has revised its Manual in Section C.15, Pages 17 and 18, to include a description of the objectives, scope and methodology of the audit. A scope and methodology section will be included in the audit report. In addition, Internal Audit will develop well-defined audit objectives that are limited to the work performed.

- 5. The Department's compliance statement is not consistent with the language in Government Auditing Standards Section 7.30.*

Internal Audit has been using a compliance statement that paraphrases the language in Section 7.30. The exact language in Section 7.30 will be used in all future reports. This language is as follows:

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

- 6. The Department does not provide responsible officials of the audited entity with a written draft of the report for review and comment and does not usually include written comments from responsible officials of the organization.*

Internal Audit already has a policy in its Policies and Procedures Manual to obtain and report views of responsible officials of the audited entity and to provide a draft report for review and comment. The policy also states that if written comments are obtained from responsible officials of the audited entity, these comments will be included in the final report. Internal Audit will ensure that these policies are enforced in regard to future reports.

The ALGA Peer Review team leader has reviewed the above responses and concurs with the actions to address the findings.

FISCAL IMPACT:

None.

ATTACHMENTS:

None.

REPORT

DATE: June 15, 2016
TO: Audit Committee
FROM: Richard Howard, Internal Auditor, (213) 236-1905, howardr@scag.ca.gov
SUBJECT: Shared Drives

RECOMMENDED ACTION:

For Information Only – No Action Required.

EXECUTIVE SUMMARY:

Internal Audit conducted a review of the data stored on SCAG's shared drives. Personal identifying information was found.

STRATEGIC PLAN:

This item supports SCAG's Strategic Plan, Goal 5 - Optimize Organizational Efficiency and Cultivate an Engaged Workforce.

INTRODUCTION:

Representatives from Accounting, Contracts, Human Resources (HR), the Legal Department, and Internal Audit met on October 21, 2015 to discuss how to best respond to findings stemming from the fiscal year (FY) 2015 financial audit performed by Vasquez and Company, LLP. The meeting included a discussion of potential risks affecting SCAG operations, including accessibility of sensitive information. At the request of the CFO, Internal Audit reviewed files and folders on the M:Drive and K:Drive to determine the extent to which they contained sensitive information, including any personal identifying information.

SCOPE AND METHODOLOGY:

Internal Audit accessed files and folders on the M:Drive and K:Drive during November and December 2015. In instances where files and folders contained sensitive data and information, Internal Audit documented the names and locations of the files. In addition, Internal Audit reviewed the policies and procedures in SCAG's Records Management Policy and Procedures document and compared them the information on the shared drives to help (1) determine the extent to which SCAG's records management policies and procedures have been applied to maintaining information and data, and (2) see if the records management policies and procedures need updating.¹ Internal Audit did not conduct an audit of SCAG's records management processes, including the storing and removal of files containing sensitive information, the objectives of which would be to express an opinion of the effectiveness and efficiency of the overall process. Rather, the focus was to ascertain what types of information are accessible to staff. Accordingly, Internal Audit does not express an opinion on the records management process at this time.

Internal Audit performed this review from January 2016 through April 2016 in accordance with generally accepted government auditing standards (GAGAS). Those standards require that Internal Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings

¹Southern California Association of Governments (SCAG) Records Management Policy and Procedures, 5 March 2005.

and conclusions based on our audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

BACKGROUND:

SCAG's work environment includes the use of shared drives that employees use to store and share information and records, such as the M:Drive, a shared virtual drive accessible to all employees. Other drives provide shared access that is limited to specific departments and/or groups, such as the K:Drive, which Finance uses to help facilitate information sharing, and includes payroll data and consultant invoices among other records. Employees using these drives can request limited access or other restrictions on the files they upload and folders they create to store the files. SCAG's Information Technology (IT) Department applies access restrictions on the files as per staff requests.

In order to provide guidance on maintaining information and records, SCAG has a *Records Management Policy and Procedures* document. The policy and procedures document states that SCAG plans to "establish an agency-wide records management program" to ensure security of SCAG records with administrative, legal, fiscal, programmatic or historical value, among other things. In addition, the document states that SCAG shall designate a Records Officer to oversee and coordinate with each department in an initial agency-wide inventory of records currently maintained in SCAG computer files as well as establish and maintain a records management program, including the development of an electronic recordkeeping system. The policy and procedures document also provides a draft records retention schedule that categorizes record type and associated retention periods. However, the policy and procedures document does not include a discussion regarding the use of shared drives.

RESULTS OF REVIEW:

Internal audit found 138 PDF files on the M:Drive contained sensitive information. Most of the files are located in only a few folders (those folders related to scanned documents), and all have been uploaded over a year ago (for instance, the latest modified record date was August 2014). Of the 138 files, 112 contained regional council members' social security numbers. These files are scanned information cards provided to new regional council members that requested certain information, including social security numbers. All are located in the same folder—Scans-Xerox—and have a similar naming convention—*NewMemberCard[Name]* or *NewMemberInfo[Name]*, making it relatively straightforward for someone to collect personal identifying information for multiple individuals. It is unclear whether the files are being actively maintained in that folder or whether they are also saved in a different location. Regardless, maintaining the files on the M:Drive without restricted access increases the risk of the information being compromised.

Other files containing sensitive information did not share a common naming convention, but all contained personal identifying information, including social security numbers, date of birth, and/or driver license numbers. These files are also a few years old. Although the naming conventions do not necessarily indicate the type of information included in the files, that they are accessible increases the risk of personal identifying information being compromised.

In addition to files containing personal identifying information, Internal Audit found 141 files of scanned Form 700 documents for staff and regional council members. These files are a few years old. They are also located in the *Scans-Xerox* folder and share the same naming convention, making it easy for individuals to know what they are. Although the Form 700 is itself a public document, it does contain address and telephone numbers. Given that the documents are a few years old and have not been removed from the M:Drive indicates that files are not actively monitored for retention and/or deletion.

With regard to the K:Drive, Internal Audit found instances of documents containing sensitive information, but to a lesser extent. Greater numbers of folders and files on the K:Drive are restricted to specific staff given the nature of data they contain, such as payroll information. However, Internal Audit found instances of prior employee evaluations that had not been removed as well as files and folders of employees who are no longer employed at SCAG. The fact that the files and folders have not been removed makes it challenging to determine if they have been reviewed and are eligible for deletion as per SCAG policy.

Without consistent monitoring of files and folders, and deleting older documents no longer necessary, the risk that sensitive information could be compromised increases. For example, many of the documents Internal Audit found that contained personal identifying information were located in folders used for scanned documents. Rather than move documents from those folders after scanning, or restrict access to the documents, many of the documents have remained easily accessible to staff.

SCAG has taken some actions to help mitigate the risk of sensitive information being compromised. For instance, the current method for scanning documents does not automatically upload and save documents on the M:Drive. Rather, individuals are e-mailed their scanned documents directly, reducing the ability for other staff to access the documents. Further, staff can request restricted access to files and folders that contain sensitive information.

SCAG has also been engaged in recent efforts to improve its records management and retention activities given that the policy and procedures document is relatively dated and there is no currently designated position at SCAG responsible for overseeing and managing the agency's records. SCAG hired a consultant to perform an assessment of the agency's records management activities.² In June 2014, the consultant reported that SCAG's records management activities are relatively ad-hoc in that they are typically undocumented and relatively unorganized, there is no established records management program, the records retention schedule is not used except by HR, and there is a lack of a formalized and dedicated records management position to oversee records management activities, among other things. However, the consultant noted that SCAG has demonstrated readiness to begin moving towards establishing a formally defined records management program in that the agency is adopting an enterprise content management system (i.e. a centralized system for managing information). The consultant recommended that the records policy and procedures document be updated to reflect the use of electronic records, align with best practices, and provide terminology for implementing and enforcing the policy among other things. Following the conclusion of the consultant study SCAG created and budgeted for a Records Manager position. A recruitment was conducted that did not yield a successful candidate. Subsequently, the position was put on hold pending organizational changes and was recently approved by the Executive Director and is actively in recruitment. SCAG anticipates filling the position in the next sixty (60) days. Meanwhile, SCAG is currently determining how best to implement the consultant's findings and recommendations in advance of the position being filled.

Until SCAG finalizes its policies and procedures for maintaining information, someone deemed appropriate by management should review information on the shared drives on a regular basis to help ensure sensitive data are not accessible, as well as provide for the "timely destruction of electronic records, metadata, back-up, and residual electronic data." In addition, as SCAG updates and implements its record retention schedule and looks for ways to improve SCAG's enterprise records and information management, including the paperless initiative, it should incorporate the use of shared drives and handling of sensitive information.

²This effort was performed under contract 13-038-C1.

Recommendations

- (1) SCAG should finalize policies and procedures for maintaining information.
- (2) Until a Records Officer is hired, someone deemed appropriate by management should:
 - a. remove the files containing sensitive information from the shared drives, and
 - b. actively monitor information on the shared drives to help ensure sensitive data are not accessible as well as provide for the proper archival and/or destruction of files as per SCAG policy.
- (3) SCAG should include the use of shared drives and the handling of sensitive information when inventorying agency-wide data and updating and/or implementing records management policies and procedures.

RESPONSE TO RECOMMENDATIONS:

IT Comments

In commenting on this report, IT agreed with the recommendations. However, with regard to the second recommendation, IT noted that an outside resource may be necessary to complete a full analysis and review of the network drives, including their content and security permissions, as well as to evaluate software tools that would help monitor and manage the drives prior to assigning a regular staff member to perform routine monitoring of the drives. Further, with regard to the third recommendation, IT indicated that an inventory of information and data on the shared drives could possibly be incorporated into ongoing paperless and records management efforts.

Legal Department Comments

The Legal Department concurs with the recommendations and encourages the timely removal of sensitive information from the shared drives as well as the establishment of agency-wide policies to address the matter.

FISCAL IMPACT:

None.

ATTACHMENT:

None.

REPORT

DATE: June 15, 2016

TO: Audit Committee

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

SUBJECT: Separated Employee Access to SCAG Systems

RECOMMENDED ACTION:

For Information Only – No Action Required.

EXECUTIVE SUMMARY:

Internal Audit conducted an assessment of the risk of separated employees accessing SCAG’s systems. A high probability of risk exists.

STRATEGIC PLAN:

This item supports SCAG’s Strategic Plan, Goal 5 – Optimize Organizational Efficiency and Cultivate an Engaged Workforce.

INTRODUCTION:

Representatives from Accounting, Contracts, Human Resources (HR), the Legal Department, and Internal Audit met on October 21, 2015 to discuss how to best respond to findings stemming from the fiscal year (FY) 2015 financial audit performed by Vasquez and Company, LLP. The meeting included a discussion of potential risks affecting SCAG operations, one of which was about a former employee accessing SCAG e-mail approximately two weeks after separating from the agency. This suggested potential security risks in that individuals may be able to access SCAG information technology (IT) systems though no longer employed by the agency. Internal Audit therefore conducted a review to determine the extent of this risk.

SCOPE AND METHODOLOGY:

Internal Audit received a list of separated employees from HR—to include their final day at SCAG—for the period December 1st, 2013 through December 1st, 2015. The list contained 34 regular full-time employees who had left the agency. Internal Audit also received from IT a data set of edits made to each of the separated employee’s accounts as well as the log-in activity associated with each account. The source of the data was Allied Digital, the consultant that runs SCAG’s IT-related Help Desk.¹ It was determined that edits to the accounts recorded in the data-set included more than disabling an account, so Internal Audit requested and received from IT a sample of six Allied Digital work tickets related to the separated employee accounts—specifically HR’s request to disable the accounts and Allied Digital’s responses.

Internal Audit did not perform an audit of SCAG’s employee separation process, the objectives of which would be to express an opinion of the effectiveness and efficiency of the overall process. Rather, the focus was to ascertain the extent to which SCAG systems are accessible to employees following their separation

¹The data set is dated January 13, 2016.

from the agency. Accordingly, Internal Audit does not express an opinion on the employee separation process at this time.

APPLICABLE AUDIT STANDARDS:

Internal Audit performed this review from January 2016 through April 2016 in accordance with generally accepted government auditing standards (GAGAS). Those standards require that Internal Audit plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives.

BACKGROUND:

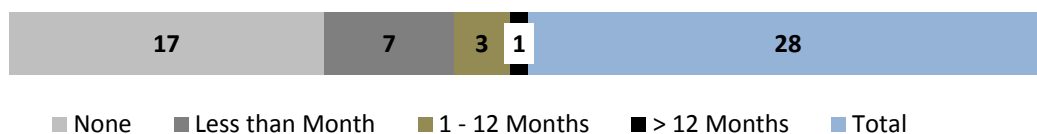
SCAG’s process for disabling separated employees access to SCAG systems includes HR sending an e-mail to Allied Digital (SCAG’s IT service provider) to disable their account (this creates a work ticket for Allied Digital). When Allied Digital completes the request to disable an account, it sends a notification to HR (referred to as a case closure notification). In September 2015, HR added contacting the manager/supervisor of the separated employee to the disabling process to ask if access to emails and the hard drive is necessary.

RESULTS OF REVIEW:

A total of thirty four (34) employees left SCAG between December 1st, 2013 and December 1st, 2014. None of the six work tickets provided by Allied Digital showed that the account disabled date (i.e. the date Allied Digital completed HR’s request) matched the separation date in the accompanying HR request. One employee account was disabled ten (10) days prior to the separation date. Four (4) accounts were disabled after the separation date, usually a matter of weeks. Ticket information was not available for one employee account because that account had been deleted, and account information is no longer maintained for deleted accounts.²

With regard to last log-on dates, IT noted that the date refers to the last time an individual’s account was used to log-on to SCAG systems. Of the thirty four (34) employees, Allied Digital data were not available for five (5) accounts because the accounts had been deleted. When comparing the last log-on dates with the separation dates for the remaining twenty nine (29) separated employee accounts, approximately thirty eight (38) percent—eleven (11) accounts—had log-on dates following their separation date. However, approximately fifty nine (59 percent) —seventeen (17) accounts—did not have a log-on dated past their last day. In one instance, an individual’s status changed from permanent employee to temporary employee, therefore it would be expected that the account had a recent associated log-on date. Figure one (1) shows time frames for last log-on dates.

Figure 1: Last Log-on Time Frames Following Separation Date



Source: HR and IT.
 Note: Total = 29. Data not available for five accounts.

²SCAG deletes inactive accounts after a period of time. Deleted accounts are no longer maintained by Allied Digital.

ANALYSIS

To understand why none of the HR separation dates matched the Allied Digital data, Internal Audit made further inquiries. It appears that HR requests to disable accounts of separated employees become part of Allied Digital's regular workflow and the work tickets are processed during the normal scope of its operations. In the case of SCAG's disable requests, this has sometimes resulted in delays of weeks. IT also noted that legitimate factors could cause an account to remain active, such as a subsequent request to Allied Digital to grant supervisor or manager access to a separated employee's account for business purposes.

RISKS

It is clear that there is a risk of separated employees accessing SCAG's systems, but it is impossible to ascertain to what extent that has happened because some of the post-separation access activity relates to supervisors monitoring separated employees' accounts.

RECOMMENDATIONS

SCAG should strengthen procedures for terminating access to accounts for separated employees by:

- (1) Developing policies and procedures regarding separating employees that include specific time frames for disabling and/or deleting accounts; and
- (2) Verifying that separated employees' accounts have been disabled within the prescribed time frames.

In commenting on this report, IT agreed with the recommendations. HR also agreed with the recommendations.

FISCAL IMPACT:

None.

ATTACHMENT:

None.

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REPORT

DATE: June 15, 2016

TO: Audit Committee

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

SUBJECT: Payroll Review Report

RECOMMENDED ACTION:

For Information Only – No Action Required.

STRATEGIC PLAN:

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

BACKGROUND:

As part of a Continuous Audit program, Internal Audit began a review of payroll rates. The review began on February 2, 2016. The review involved a comparison of hourly pay rates as shown on the Personnel Action Forms (PAF) in each employee's personnel file in Human Resources (HR) to the hourly pay rates shown by the Payroll Department for the Pay Period ended January 24, 2016. The PAFs show the Type of Personnel Action, the change in pay rates and the reason for the Personnel Action.

The objective of the review was to determine if each employee's current pay rate was in agreement with Human Resources files and there were no variances.

The Payroll Department furnished a listing of all employees at January 24, 2016, including interns and part-time employees. The listing showed the employee's name, SCAG ID number and hourly pay rate as well as the hours and gross pay for that pay period.

Results of Audit

After completing the review on February 3, 2016, there were no differences found between the hourly rates in Payroll's records and the hourly rates in the individual employee personnel files. One employee's pay rate in his personnel folder was less than what is shown in Payroll's records. We reexamined his personnel file and found that the latest PAF was misfiled. HR corrected this filing error and no other differences were found.

Internal Audit did note, however, that the Annual Pay as calculated by HR is shown on the PAF and it was slightly different for a few employees. The Annual Pay should be the same as the product of the hourly pay rate times 2,080 hours. As mentioned, a few differences were found and HR was told of the discrepancies. This did not result in any incorrect payments since Payroll calculates the Gross Pay based on the hourly pay rates.

REPORT

Recommendations

We recommend that HR check the calculations for Annual Pay as shown on the PAF to insure that the annual totals are correct. Internal Audit will perform these pay rate reviews on a regular basis.

FISCAL IMPACT:

None.

ATTACHMENTS:

None.

REPORT

DATE: June 15, 2016
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 December 14, 2015, six (6) pre-award audits of contract proposals were completed.

The six consist of the following:

<u>Consultant</u>	<u>Proposal Amount</u>	<u>Questioned Costs</u>	<u>Questioned Costs Sustained</u>
Stantec	\$182,172	\$13,511	-0-
Alta	268,919	16,713	\$16,713
Nelson\Nygaard	81,851	6,159	-0-
Parsons Brinckerhoff	124,888	0	-0-
AMMA	372,391	14,394	14,394
KOA	142,919	5,385	5,385
Totals	\$1,173,140	\$56,162	\$36,492

A peer review was performed on the Internal Audit Department last November. A separate report on the findings and corrective actions taken by SCAG is included in today’s agenda. Separate reports are also included in today’s agenda concerning:

- Payroll Review
- Shared Drives Report
- Employee Access to SCAG Systems
- Petty Cash Review

In addition, a request for approval of a Work Plan for Internal Audit for the next fiscal year is included in today’s agenda.

REPORT

In the current fiscal year the Internal Auditor has had forty four (44) hours of Continuing Professional Education (CPE) and the Assistant Internal Auditor has had sixty eight (68) hours of CPE.

FISCAL IMPACT:

None.

ATTACHMENTS:

None.

REPORT

DATE: June 15, 2016
TO: Audit Committee
FROM: Richard Howard, Internal Auditor, (213) 236-1905, howard@scag.ca.gov
SUBJECT: Petty Cash Review

RECOMMENDED ACTION:

For Information Only – No Action Required.

EXECUTIVE SUMMARY:

Internal Audit conducted a review of the petty cash fund.

STRATEGIC PLAN:

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

BACKGROUND:

Accounting staff have access to and maintain the petty cash fund, including records of disbursements. Internal Audit reviewed the petty cash fund on May 10, 2016. The amount of the petty cash fund is \$1,000. The review included counting on-hand cash; comparing on-hand cash with petty cash fund records; and verifying disbursement amounts with the records. The objective of the review was to determine if there were any discrepancies in the amount recorded and cash on-hand as well as what, if any, risks are associated with the petty cash fund.

Results

Internal Audit completed the review on May 10, 2016. The review included 13 transactions from March 17 through May 9. No differences were found between cash on-hand and petty cash fund records. Also, all disbursements were recorded correctly.

In speaking with Accounting staff, Internal Audit noted some areas of potential risk associated with the petty cash fund. These include:

- Withdrawal limit not always followed. In two instances, cash taken disbursed was greater than the \$150 withdrawal limit—\$200 for a travel advance and \$175 to purchase refreshments for a staff meeting. In both instances, the Accounting staff primarily responsible for maintaining the fund was on leave, so another staff with access to the fund handled the disbursements.
- Petty cash fund typically used for cash advances rather than re-imburements. In five instances, receipts were provided after the disbursement date. Accounting staff noted that receipts are usually provided in a timely fashion, but there are times when it can take a while for receipts to come in. Further, there is no mechanism in place to force staff to provide receipts in a timely manner.

REPORT

- On-hand cash relatively low given amounts requested. The amount of cash on-hand was \$200, but many requests were for \$100 or more. There is potential that not enough petty cash may be on-hand to meet requests.
- Petty cash used for travel advance. In one instance, an employee requested \$200 from the petty cash fund as a travel advance. In addition to the amount being above the withdrawal limit, the supporting documentation did not include any receipts, but rather a travel authorization and expense form. Internal Audit checked travel invoices and found receipts for a rental car and gas as well as documented mileage. Using petty cash for travel advances does not follow established SCAG travel procedures and makes it more challenging to verify funds have been used for the correct purpose.
- Employees approving their own requests. In one instance, an employee approved his own request for cash. The amount was relatively low at approximately \$10. However, employees should not approve their own requests for cash, especially if the amount is more substantial.

Recommendations

We recommend that in the case of advances, time frames for submitting receipts and/or other supporting documentation be stated on the petty cash voucher form or other appropriate document, so time frames are clearly communicated to employees. We also recommend that the withdrawal limit be clearly stated on the petty cash form so employees are aware of the limit and that additional amounts would need to be approved by the appropriate level (such as the CFO or immediate supervisor). Finally, we recommend that the petty cash fund be reconciled on a more frequent basis, such as monthly or if on-hand funds dip below \$500, to ensure availability of funds.

In response to this report, Accounting Department management agreed with the recommendations.

FISCAL IMPACT:

None.

ATTACHMENTS:

None.