



SOUTHERN CALIFORNIA
ASSOCIATION OF GOVERNMENTS
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REMOTE PARTICIPATION ONLY

AUDIT COMMITTEE

Wednesday, July 27, 2022
10:30 a.m. – 12:00 p.m.

To Attend and Participate on Your Computer:
<https://scag.zoom.us/j/316673359>

To Attend and Participate by Phone:
Call-in Number: 1-669-900-6833
Meeting ID: 316 673 359

***Please see next page for detailed
instructions on how to participate in the meeting.***

PUBLIC ADVISORY

Given the declared state of emergency (pursuant to State of Emergency Proclamation dated March 4, 2020) and local public health directives imposing and recommending social distancing measures due to the threat of COVID-19, and pursuant to Government Code Section 54953(e)(1)(A), the meeting will be held telephonically and electronically.

If members of the public wish to review the attachments or have any questions on any of the agenda items, please contact Maggie Aguilar at (213) 630-1420 or via email at aguilarm@scag.ca.gov. Agendas & Minutes are also available at: www.scag.ca.gov/committees.

SCAG, in accordance with the Americans with Disabilities Act (ADA), will accommodate persons who require a modification of accommodation in order to participate in this meeting. SCAG is also committed to helping people with limited proficiency in the English language access the agency's essential public information and services. You can request such assistance by calling (213) 630-1420. We request at least 72 hours (three days) notice to provide reasonable accommodations and will make every effort to arrange for assistance as soon as possible.



Instructions for Public Comments

You may submit public comments in two (2) ways:

1. **In Writing:** Submit written comments via email to: ePublicComment@scag.ca.gov by **5pm on Tuesday, July 26, 2022**. You are **not** required to submit public comments in writing or in advance of the meeting; this option is offered as a convenience should you desire not to provide comments in real time as described below.

All written comments received after 5pm on Tuesday, July 26, 2022 will be announced and included as part of the official record of the meeting.

2. **In Real Time:** If participating in real time via Zoom or phone, during the Public Comment Period (Matters Not on the Agenda) or at the time the item on the agenda for which you wish to speak is called, use the “raise hand” function on your computer or *9 by phone and wait for SCAG staff to announce your name/phone number. SCAG staff will unmute your line when it is your turn to speak. Limit oral comments to 3 minutes, or as otherwise directed by the presiding officer. For purpose of providing public comment for items listed on the Consent Calendar, please indicate that you wish to speak when the Consent Calendar is called; items listed on the Consent Calendar will be acted on with one motion and there will be no separate discussion of these items unless a member of the legislative body so requests, in which event, the item will be considered separately.

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In accordance with SCAG’s Regional Council Policy, Article VI, Section H and California Government Code Section 54957.9, if a SCAG meeting is “willfully interrupted” and the “orderly conduct of the meeting” becomes unfeasible, the presiding officer or the Chair of the legislative body may order the removal of the individuals who are disrupting the meeting.

OUR MISSION

To foster innovative regional solutions that improve the lives of Southern Californians through inclusive collaboration, visionary planning, regional advocacy, information sharing, and promoting best practices.

OUR VISION

Southern California’s Catalyst for a Brighter Future

OUR CORE VALUES

Be Open | Lead by Example | Make an Impact | Be Courageous



Instructions for Participating in the Meeting

SCAG is providing multiple options to view or participate in the meeting:

To Participate and Provide Verbal Comments on Your Computer

1. Click the following link: <https://scag.zoom.us/j/316673359>
2. If Zoom is not already installed on your computer, click “Download & Run Zoom” on the launch page and press “Run” when prompted by your browser. If Zoom has previously been installed on your computer, please allow a few moments for the application to launch automatically.
3. Select “Join Audio via Computer.”
4. The virtual conference room will open. If you receive a message reading, “Please wait for the host to start this meeting,” simply remain in the room until the meeting begins.
5. During the Public Comment Period (Matters Not on the Agenda) or at the time the item on the agenda for which you wish to speak is called (see note above regarding items on the Consent Calendar), use the “raise hand” function located in the participants’ window and wait for SCAG staff to announce your name. SCAG staff will unmute your line when it is your turn to speak. Each speaker is limited to oral comments totaling 3 minutes for all matters, or as otherwise directed by the presiding officer.

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2. Enter the **Meeting ID: 316 673 359**, followed by #.
3. Indicate that you are a participant by pressing # to continue.
4. You will hear audio of the meeting in progress. Remain on the line if the meeting has not yet started.
5. During the Public Comment Period (Matters Not on the Agenda) or at the time the item on the agenda for which you wish to speak is called (see note above regarding items on the Consent Calendar), press *9 to add yourself to the queue and wait for SCAG staff to announce your name/phone number. SCAG staff will unmute your line when it is your turn to speak. Each speaker is limited to oral comments totaling 3 minutes for all matters, or as otherwise directed by the presiding officer.

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AC - Audit Committee Members – July 2022

- 1. Hon. Art Brown**
Buena Park, RC District 21
- 2. Hon. Steve Manos**
Lake Elsinore, RC District 63
- 3. Hon. Ali Saleh**
Bell, RC District 27
- 4. Hon. Marty Simonoff**
Brea, RC District 22
- 5. Hon. Cheryl Viegas-Walker**
El Centro, RC District 1
- 6. Hon. Alan Wapner**
SBCTA Representative
- 7. Hon. Edward Wilson**
Signal Hill, GCCOG

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AUDIT COMMITTEE AGENDA

Southern California Association of Governments
Remote Participation Only
Wednesday, July 27, 2022
10:30 AM

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

CALL TO ORDER AND PLEDGE OF ALLEGIANCE *(The Honorable Art Brown, Chair)*

PUBLIC COMMENT PERIOD (Matters Not on the Agenda)

This is the time for persons to comment on any matter pertinent to SCAG's jurisdiction that is **not** listed on the agenda. Although the committee may briefly respond to statements or questions, under state law, matters presented under this item cannot be discussed or acted upon at this time. Public comment for items listed on the agenda will be taken separately as further described below.

General information for all public comments: Members of the public are encouraged, but not required, to submit written comments by sending an email to: ePublicComment@scag.ca.gov by 5pm on Tuesday, July 26, 2022. Such comments will be transmitted to members of the legislative body and posted on SCAG's website prior to the meeting. Any writings or documents provided to a majority of the Audit Committee regarding any item on this agenda (other than writings legally exempt from public disclosure) are available at the Office of the Clerk, located at 900 Wilshire Blvd., Suite 1700, Los Angeles, CA 90017 during normal business hours and/or by contacting the office by phone, (213) 630-1420, or email to aguilarm@scag.ca.gov. Written comments received after 5pm on Tuesday, July 26, 2022, will be announced and included as part of the official record of the meeting. Members of the public wishing to verbally address the Audit Committee in real time during the meeting will be allowed up to a total of 3 minutes to speak on items on the agenda, with the presiding officer retaining discretion to adjust time limits as necessary to ensure efficient and orderly conduct of the meeting. The presiding officer has the discretion to equally reduce the time limit of all speakers based upon the number of comments received. If you desire to speak on an item listed on the agenda, please wait for the chair to call the item and then indicate your interest in offering public comment by either using the "raise hand" function on your computer or pressing *9 on your telephone. For purpose of providing public comment for items listed on the Consent Calendar (if there is a Consent Calendar), please indicate that you wish to speak when the Consent Calendar is called; items listed on the Consent Calendar will be acted upon with one motion and there will be no separate discussion of these items unless a member of the legislative body so requests, in which event, the item will be considered separately.



REVIEW AND PRIORITIZE AGENDA ITEMS

SELECTION OF VICE CHAIR

CONSENT CALENDAR

Approval Item

1. Minutes of the Meeting – February 23, 2022

INFORMATION ITEMS

2. Fiscal Year (FY) 2021-22 Briefing from Financial Auditors 30 Mins.
(Emad Gewaily, Controller)
3. Project Management Process Improvement Update 15 Mins.
(Debbie Dillon, Chief Strategy Officer)
4. Internal Audit Report on Procurement 20 Mins.
(David James, Internal Auditor)
5. Internal Audit Status Report 20 Mins.
(David James, Internal Auditor)
6. Finance Status Report 10 Mins.
(Cindy Giraldo, Chief Financial Officer)

FUTURE AGENDA ITEMS

ANNOUNCEMENTS

ADJOURNMENT



Southern California Association of Governments
Remote Participation Only
July 27, 2022

AUDIT (AC) COMMITTEE
MINUTES OF THE MEETING
WEDNESDAY, FEBRUARY 23, 2022

THE FOLLOWING MINUTES ARE A SUMMARY OF ACTIONS TAKEN BY THE AUDIT COMMITTEE (AC). A VIDEO AND AUDIO RECORDING OF THE FULL MEETING IS AVAILABLE AT: <http://scag.iqm2.com/Citizens/>.

The Audit Committee (AC) of the Southern California Association of Governments (SCAG) held its regular meeting virtually (telephonically and electronically), given the declared state of emergency (pursuant to State of Emergency Proclamation dated March 4, 2020) and local public health directives imposing and recommending social distancing measures due to the threat of COVID-19, and pursuant to Government Code Section 54953(e)(1)(A). A quorum was present.

Members Present:

Sup. Carmen Ramirez, Chair	<i>County of Ventura</i>	
Hon. Ben Benoit, Vice Chair	<i>Air District</i>	
Hon. Marty Simonoff	<i>Brea</i>	District 22
Hon. Cheryl Viegas-Walker	<i>El Centro</i>	District 1
Hon. Alan D. Wapner	<i>Ontario</i>	SBCTA

Members Not Present

Hon. Edward Wilson	<i>Signal Hill</i>	GCCOG
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CALL TO ORDER AND PLEDGE OF ALLEGIANCE

The Honorable Carmen Ramirez called the meeting to order at 10:30 a.m. and asked Ben Benoit, Air District Representative, to lead the Pledge of Allegiance. The Clerk confirmed a quorum was present.

PUBLIC COMMENT PERIOD

Chair Ramirez provided detailed instructions and general information on how to provide public comments. Additionally, she noted that public comments received via email to ePublicComment@scag.ca.gov after 5 p.m. on Tuesday, February 22, 2022, would be announced and included as part of the official record of the meeting.

Chair Ramirez opened the public comment period and asked members of the public to use the “raise hand” function on the computer or *9 by phone and wait for SCAG staff to announce their name or phone number.

Chair Ramirez thanked everyone for participating remotely. She noted that this was the time for members of the public to offer comment for matters that are within SCAG’s jurisdiction but are not listed on the agenda.

The Clerk acknowledged there were no written public comments received by email before or after the 5 p.m. deadline on Tuesday, February 22, 2022. SCAG staff also noted that there were no public comments for matters not listed on the agenda.

Chair Ramirez closed the public comment period for matters not listed on the agenda.

REVIEW AND PRIORITIZE AGENDA ITEM

There were no reprioritizations made.

ACTION ITEM

1. Selection of Vice Chair

A MOTION was made (Wapner) and SECONDED (Ramirez) to nominate Hon. Ben Benoit as Vice-Chair of the Audit Committee. The motion passed by the following roll call vote:

FOR: Benoit, Ramirez, and Wapner (3)

AGAINST: None (0)

ABSTAIN: None (0)

There were no public comments or additional discussions from the Committee on this item.

CONSENT CALENDAR

Approval Item

2. Minutes of the October 20, 2021 Meeting

A MOTION was made (Wapner) and SECONDED (Benoit) to approve the Consent Calendar. The motion passed by the following roll call vote:

FOR: Benoit, Ramirez, Simonoff and Wapner (4)

AGAINST: None (0)

ABSTAIN: None (0)

There were no public comments or additional discussions from the Committee on this item.

3. Fiscal Year (FY) 2020-21 External Audit by Eide Bailly LLP

David James, Internal Auditor, introduced Roger Alfaro, Partner, Eide Bailly LLP, and asked him to present the results of SCAG's FY 2020-21 financial audit.

Mr. Alfaro's presentation included an overview of the audit process, a discussion of the Annual Comprehensive Financial Report (ACFR); a report on internal control over financial reporting; and a report on compliance requirements over major federal programs.

Mr. Alfaro provided details on the accounting policies and significant estimates for the net pension liability and the net Other Postemployment Benefits (OPEB) liabilities.

Mr. Alfaro concluded his presentation noting there were no material weaknesses of internal control over financial reporting, compliance, and other matters. He reported there was an Unmodified Opinion for SCAG's FY 2020-21 financial statements (ACFR), Single Audit and Compliance.

SCAG staff responded on the comments and questions expressed by the Committee, including whether there was sampling and testing of transactions and the accuracy of the information provided by management. Additionally, the Committee requested that staff, going forward, include the ACFR link in the agenda packet and asked staff to distribute the ACFR link to them following today's meeting.

There were no public comments received for this item.

4. Project Management Process Improvement Update

Debbie Dillon, Chief Strategy Officer, provided status updates on the project management process underway that supports continuous improvement for project management and procurement processes. The following highlights were included in Ms. Dillon's presentation:

- As part of the FY 2022 Budget Amendment 2, SCAG amended its Indirect Cost Budget to include the under-recovery of indirect cost in the amount of \$598,332, which was the only outstanding item from the Caltrans Audit. In January 2022, SCAG submitted the amended FY 2022 Indirect Cost Rate Proposal (ICRP) to the Federal Transit Administration (FTA), SCAG's new "cognizant agency," for review and approval.

- Julie Shroyer, SCAG's Chief Information Officer, began leading the next phase of the Enterprise Project Management Office (EPMO) implementation. Details of the EPMO's accomplishments and milestones to date were outlined in today's agenda packet.
- The EPMO continues to focus on project management training which is updated and mandated for all staff.
- SCAG continues to move away from Cost-Plus-Fixed Fee contracts and toward Lump Sum contract formats. This payment structure requires less administration and resources and is more attractive to potential bidders.

Ms. Dillon concluded her presentation and noted that staff would continue to provide progress updates to the Committee.

Chair Ramirez asked if the request for public comments could be announced to the members of the public at the end of each presentation, rather than at the beginning of each presentation. Staff concurred.

There were no public comments received for this item.

5. Finance Status Report

Cindy Giraldo, Chief Financial Officer, provided an update of the significant progress made in several key areas. Some of the highlights reported were:

- The Annual Comprehensive Financial Report, and its acronym, ACFR, is the new official name and should be used instead of the acronym CAFR associated with the Comprehensive Annual Financial Report. CAFR, when pronounced aloud, sounds the same as a derogatory term historically directed towards those of South African heritage, and used in other parts of the world as well.
- Eide Bailly completed SCAG's FY 2020-21 audit and will present the Annual Comprehensive Financial Report (ACFR) at the EAC and Regional Council at its March 3rd meetings. Additionally, Eide Bailly will commence SCAG's FY 2021-22 preliminary audit in April.
- Staffing Management Update: An external recruitment to fill the Controller position has been completed. Mr. Emad Gewaily joins SCAG on February 28, 2022 as the new Controller. Ms. Erika Bustamante was appointed to Deputy Director of Finance and after an internal recruitment, Ms. Kana Sato-Nguyen was promoted to Budget & Grants Manager.
- The responsibility of completing pre-award reviews has been transitioned to the Contract Administrators within the Contracts department. Since the last Audit Committee meeting, an additional \$94,000 in savings have been achieved through this negotiation process.

- The FTA, SCAG's cognizant agency, will review SCAG's Indirect Cost Proposal. Staff will update the Committee once the review is complete.

There were no public comments or additional discussions from the Committee on this item.

6. Understanding Cybersecurity

Julie Shroyer, Chief Information Officer, provided an overview of cybersecurity threat trends and concepts of depth in defense to better understand cybersecurity and SCAG's progress in that effort.

Ms. Shroyer's report included a summary of the following highlights:

- Description of some of the dominate types of cybersecurity threats, including "business email compromise" and "ransomware" attacks.
- Information Security: development of awareness, good habits, and a healthy paranoia.
- Depth in defense: description of the multiple layers of security controls to protect the integrity of information systems.
- SCAG's Depth in Defense education and awareness training to be completed by this fiscal year.

Staff responded to comments and questions expressed by the Councilmembers, including questions regarding cybersecurity requirements for insurance compliance, and the amount of intrusion detectors SCAG encounters on a regular basis.

There were no public comments received for this item.

7. Internal Audit Status Report

David James, Internal Auditor, presented the Internal Audit Status Report, which lists work performed since the last Committee meeting. Mr. James provided highlights of the organization-wide risk assessment which was conducted to understand in depth SCAG's organizational risks.

Mr. James provided a summary of the risk assessment processes performed and discussed the results of the risk assessment interviews conducted with SCAG staff. He referenced the Internal Audit Risk Matrix and pointed to the potential auditable areas based on Internal Audit's assessments of potential risks. Mr. James noted that the selection of projects considered to be audited in FY 2022 are the procurement processes, accounts payables/invoice payments, and board stipends.



Mr. James noted that he is preparing a draft report of the internal audit of SCAG's procurements for FY 2021; after executive management review, the final report will be presented to the Audit Committee at its next meeting.

In reference to SCAG's Ethics Hotline report, Mr. James stated that there were no reports submitted to the ethics hotline since the last Audit Committee meeting.

Chair Ramirez thanked Mr. James for his comprehensive report and asked staff to present at a future meeting a report that outlines the procedures for paying SCAG invoices. Staff concurred.

There were no public comments received for this item.

ANNOUNCEMENTS

There were no announcements made.

FUTURE AGENDA ITEMS

There were no future agenda items requested.

ADJOURNMENT

There being no further business, Chair Ramirez adjourned the Audit Committee meeting at 11:38 a.m.

Respectfully submitted by:
Carmen Summers
Audit Committee Clerk

[MINUTES ARE UNOFFICIAL UNTIL APPROVED BY THE AUDIT COMMITTEE]

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AGENDA ITEM 2
REPORT

Southern California Association of Governments
Remote Participation Only
July 27, 2022

To: Audit Committee (AC)

**EXECUTIVE DIRECTOR'S
APPROVAL**

From: Emad Gewaily, Controller
(213) 630-1425, gewaily@scag.ca.gov

A handwritten signature in blue ink that reads "Kome Ajise".

Subject: Fiscal Year (FY) 2021-22 Briefing from Financial Auditors

RECOMMENDED ACTION:

Information Only – No Action Required

STRATEGIC PLAN:

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

EXECUTIVE SUMMARY:

SCAG's external auditors (Eide Bailly, LLP) will present their plans for the FY 2021-22 financial audit.

BACKGROUND:

SCAG's external independent auditors have started audit work on SCAG's FY 2021-22 financial statements. Eide Bailly plans to complete the audit and report the results to the Committee in November or December 2022. SCAG's engagement Partner, Roger Alfaro, will present the audit plan to the Audit Committee.

FISCAL IMPACT:

None.

ATTACHMENT(S):

1. SCAG 2022 Planning Presentation
-



CPAs & BUSINESS ADVISORS

SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS

Planning Communication to those Charged with Governance



AUDIT SCOPE

Perform the audit of the:

- Annual Comprehensive Financial Report (ACFR).
- 2 CFR 200 Single Audit in accordance with the Uniform Guidance.

Assist in the preparation of the ACFR.

OUR RESPONSIBILITY

U.S. Generally Accepted Auditing Standards and Government Auditing Standards.

Express opinions about whether the financial statements that have been prepared by management are presented fairly, in all material respects, in conformity with generally accepted accounting principles:

- Reasonable, not absolute assurance;
- Audit does not relieve the management of its responsibilities.

For Single Audit, express an opinion on compliance applicable to major federal programs.

OUR RESPONSIBILITY

Our audit will include understanding the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures:

- Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity;
- No opinion on internal control will be expressed.

OUR RESPONSIBILITY

Communicate other matters:

- Violations of laws or regulations that come to our attention.
- Qualitative aspects of accounting policies, accounting estimates and note disclosures.
- Significant difficulties, if any, encountered.
- Uncorrected and material corrected misstatements.
- Disagreements with management, if any.
- Management representations.
- Consultations with other accountants.

5

Attachment: SCAG 2022 Planning Presentation (FY 2021-22 Briefing from Financial Auditors)

PLANNED SCOPE AND TIMING



MANAGEMENT'S RESPONSIBILITIES

- 1 Design, implement, establish and maintain effective internal control over financial reporting, federal awards and goals and objectives.
- 2 Prevent and detect fraud and inform us of any known or suspected fraud.
- 3 Compliance with laws and regulations.
- 4 Ensure that management and financial information is reliable and properly reported.
- 5 Make all personnel, financial records and related information available to us to prepare the financial statements.
- 6 Provide us a written representation letter.



OUR APPROACH - INTERIM



OUR APPROACH - FINAL



- Address key audit areas.
- Perform tests, on a sample basis, on account balances and classes of transactions.
- Test journal entries.
- Assess accounting principles used and significant estimates.
- Confirm contingencies with legal counsel.
- Consider subsequent events.



- Propose / discuss audit adjustments.
- Present findings and recommendations.
- Provide required communications to those charged with governance.



9



QUESTIONS?

This presentation is presented with the understanding that the information contained does not constitute legal, accounting or other professional advice. It is not intended to be responsive to any individual situation or concerns, as the contents of this presentation are intended for general information purposes only. Viewers are urged not to act upon the information contained in this presentation without first consulting competent legal, accounting or other professional advice regarding implications of a particular factual situation. Questions and additional information can be submitted to your Bailly representative, or to the presenter of this session.

THANK YOU

Roger Alfaro, CPA

Partner

ralfaro@eidebailly.com

909.466.4410





AGENDA ITEM 3
REPORT

Southern California Association of Governments
Remote Participation Only
July 27, 2022

To: Audit Committee (AC)
From: Debbie Dillon, Chief Strategy Officer
(213) 236-1870, Dillon@scag.ca.gov
Subject: Project Management Process Improvement Update

**EXECUTIVE DIRECTOR'S
APPROVAL**

RECOMMENDED ACTION:
Information Only – No Action Required

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

EXECUTIVE SUMMARY:
At the February 23, 2022 committee meeting, staff provided an update regarding the California Department of Transportation (Caltrans) Corrective Action Plans, Continuing Process Improvement and the Enterprise Project Management Office. This report provides a final update on those items and other agency efforts underway to support continuous improvement for project management and related processes, policies, and procedures. Going forward the items contained in this update will be incorporated into the Chief Financial Officer's report and period updates on progress with the Enterprise Project Management Office currently being led by Chief Information Officer, Julie Shroyer.

BACKGROUND:
A. Corrective Action Plans - Closed
As part of the FY22 Budget Amendment 2, SCAG amended its Indirect Cost Budget to include the under-recovery of indirect costs in the amount of \$598,332, which was the only outstanding item from the Caltrans Audit. The amended FY22 Indirect Cost Rate Proposal (ICRP) was submitted to the Federal Transit Administration (FTA), SCAG's new Cognizant Agency, for review and approval in January 2022. The FTA financial management oversight contractor is currently reviewing the ICRP documents, and it is anticipated they will provide their report to the FTA over the next month. The FTA will then consider the review results and issue the final FY 2021-22 indirect cost and fringe benefits rates. SCAG will then submit the final rates to Caltrans for their review and approval.

B. Enterprise Project Management Office (EPMO) and Continuing Process Improvement

Building on work to develop better project management practices and procedures throughout the agency previously reported on at these meetings, SCAG's Chief Information Officer, Julie Shroyer, began leading SCAG into the next phase of EPMO implementation. Julie began reporting to EPMO Executive Sponsors, Executive Director, Kome Ajise, Chief Operating Officer, Darin Chidsey and Chief Strategy Officer, Debbie Dillon, in the second half of 2021. Significant milestones since last reported in February are:

1. Monthly meetings with Executive Sponsors
2. The cross divisional steering committee that started meeting in November 2021 has continued to meet bi-weekly and worked collaboratively to create three key work products with the assistance of Gartner consulting expertise. These are listed below and will be discussed as part of a planned August 8th Steering Committee workshop facilitated by the Gartner consultant.
 - a. Draft Charter for SCAG Executive Sponsors
 - b. An EPMO Intake Process Decision Map
 - c. Draft Project Charter Template
3. EPMO Lead position in final phases of recruitment process. Interviews for the first group of candidates were held on July 14, 2022, and the second group of candidates will be interviewed on July 26, 2022.

As previously reported, the CFO and Manager of Contracts continue to serve on a stakeholder review group that assists the Caltrans Local Assistance Program with future updates to its Local Assistance Procedures Manual (LAPM) which is a resource for SCAG in administering the projects funded through Caltrans. By becoming members of this group, SCAG has had the opportunity to provide comments/feedback prior to the adoption of future updates. Thus, giving SCAG a voice in the formation of policies and procedures that directly impact our ability to serve our stakeholders. The next update to the LAPM is anticipated for January 2023.

Additionally, SCAG continues to move away from Cost-Plus-Fixed Fee contracts and toward Lump Sum format, when appropriate. Of the 23 active procurements as of July 15, 2022, eleven (11) or 47.82%, were structured as Lump Sum contracts with milestone or progress payments. That payment structure requires less administration and is more attractive to potential bidders as long as the scope of work in the Request for Proposals is drafted with enough specificity. The Contracts Department is working with project managers to develop each new scope of work to that level to maximize the number of Lump Sum contracts.



FISCAL IMPACT:

None.



AGENDA ITEM 4
REPORT

Southern California Association of Governments
Remote Participation Only
July 27, 2022

To: Audit Committee (AC)
From: David James, Internal Auditor
(213) 630-1483, djames@scag.ca.gov
Subject: Internal Audit Procurement Report

EXECUTIVE DIRECTOR'S
APPROVAL

RECOMMENDED ACTION:

For Information Only – No Action Required

STRATEGIC PLAN:

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

EXECUTIVE SUMMARY:

The Internal Auditor has completed an audit report on procurements. SCAG management has reviewed the report and responded in writing to its recommendations.

- *Internal Audit found that SCAG's procurement process is generally in compliance with its policies and government regulations. However, there were some errors and omissions in the procurements tested by Internal Audit which staff is addressing. This report has seven observations with recommendations to address these issues.*
- *This audit also found delays in the procurement process. This report has recommendations to increase efficiency of the procurement process, with eight observations with recommendations related to procurement processes, and four observations with recommendations related to procurement information systems.*

BACKGROUND:

The objectives of this audit were:

1. Test procurements to provide assurance that all requirements are met according to SCAG policies and procedures, including procurement requirements of other government agencies that provide funding to SCAG.
2. Review the SCAG procurement process for effectiveness and efficiency, consider possible improvements, and make recommendations accordingly.



This audit reviewed the procurement processes from initiation to closure of projects for fiscal year 2021.

FISCAL IMPACT:

None

ATTACHMENT(S):

1. Internal Audit Procurement Report



**SCAG Internal Audit
Report on Procurement
May 10, 2022
By David James, CPA**

Attachment: Internal Audit Procurement Report (Internal Audit Procurement Report)

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Executive Summary

Internal Audit found that SCAG's procurement process is generally in compliance with its policies and government regulations. However, there were some errors and omissions in the procurements tested by Internal Audit which staff is addressing. This audit also found delays in the procurement process. This report has recommendations to increase efficiency of the procurement process.

Audit Objectives

The objectives of this audit are:

1. Test procurements to provide assurance that all requirements are met according to SCAG policies and procedures, including procurement requirements of other government agencies that provide funding to SCAG.
2. Review the SCAG procurement process for effectiveness and efficiency, consider possible improvements, and make recommendations accordingly.

Scope of Audit

This audit reviewed the procurement processes from initiation to closure of projects for fiscal year 2021. The goal of the audit was to assess the accuracy and completeness of procurement records and current procurement practices at SCAG. This audit did not review the invoicing and payment process for procurements.

Methodology

This audit reviewed documentation of 101 procurements for fiscal year 2021, including two Requests for Interest and Qualifications and four cancelled procurements. The audit includes completed procurements and procurements in progress. Interviews were conducted with managers, Contracts Administrators, and Project Managers.

Audit testwork involved reviewing records for compliance with SCAG policies and procedures, the Caltrans' *Local Assistance Procedures Manual*, the Code of Federal Regulations for grant rules, Federal Transportation Agency third-party contracting requirements, provisions of the California Public Contract Code and provisions of the California Labor Code, Federal and State Non-Discrimination and Disadvantaged Business Enterprise requirements, and other regulations and agreements.

Background

Procurement at SCAG involves purchase orders, cost estimates for services, Requests for Proposals (RFP), Request for Quotes (RFQ), agreements/contracts, and contract close-outs. The process is primarily handled by Project Managers and Contracts Administrators. (See the flowchart of the procurement process on page 27.)

SCAG risks having to return funds to government agencies if rules for reimbursement and vendor solicitation are not followed. In addition, SCAG is significantly increasing the number of projects to manage, causing increased demand on services from internal departments like Contracts and Accounting.

There is a tension at SCAG between compliance with regulations versus increasing the efficiency of the procurement processes to meet increased workload.

Previous Audit Findings Related to SCAG's Procurement Processes

In September 2018, Caltrans released **SCAG's Incurred Cost Audit**, and in January 2019, Caltrans released **SCAG's Indirect Cost Allocation Plan Audit**. The audits had findings and recommendations about SCAG's procurement practices and other areas.

The incurred cost audit found that project costs totaling \$7,015,036 were not supported and did not comply with agreement provisions and state and federal regulations. \$2,510,015 of these costs were disallowed. Caltrans found deficiencies in labor charges, consultant procurements, contract management, and billing and reporting.

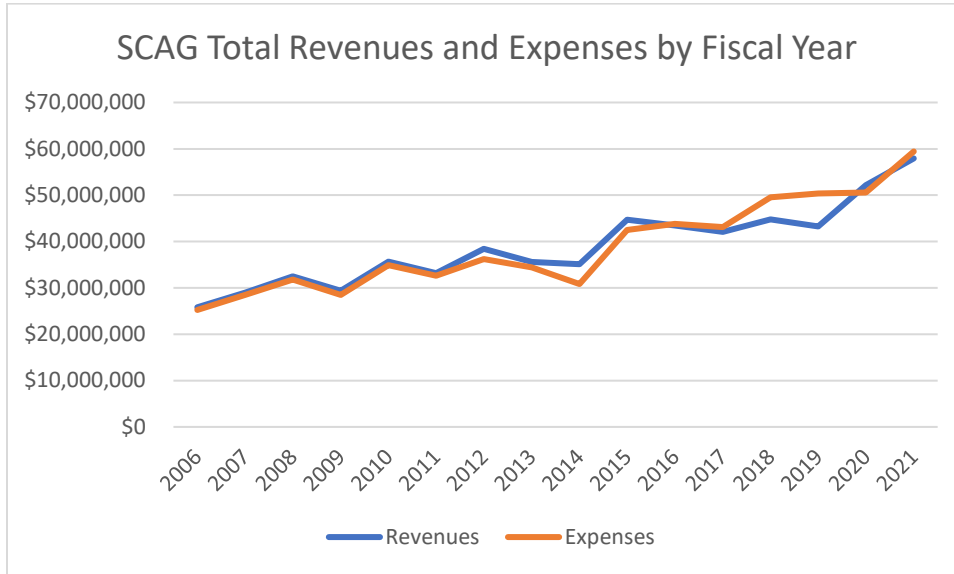
The indirect cost allocation plan audit found that SCAG's procurement practices and charging practices related to properly segregating direct and indirect costs were not in compliance with state and federal regulations. The noncompliant practices resulted in unallowable costs of \$2,617,813.

The Caltrans audits recommended that SCAG ensure that all documentation is kept supporting that proper procurement procedures are followed per state and federal regulations. Because the Caltrans' audits found that SCAG did not follow these procurement procedures, the auditors concluded that SCAG had to return reimbursed funds. However, SCAG negotiated down the amount of funds returned. After these Caltrans audits, SCAG improved several of its procurement procedures and internal controls to ensure it was meeting requirements for procurements. SCAG implemented the following:

- Solicitation Intake Form to ensure that required information and documents were gathered to begin a procurement
- Basis for Selection form to document why a consultant was chosen
- Cost/Price analysis for RFP form
- Negotiation Record for RFP form
- Contract/RFP Processing checklist
- FMS module that tracks procurement dates and information
- Standardization of forms such as the Independent Cost Estimate
- Documentation of the justification of non-competitive procurements
- Updating SCAG's policies and procedures to be in conformity with Caltrans' *Local Assistance Procedures Manual*.

Growth at SCAG

SCAG has experienced steady growth in recent years in their finances, procurements, and agreements. SCAG expects more growth in fiscal year 2022.



SCAG Annual Revenues and Expenses

Fiscal Year	Revenues	Expenses	Net Income
2006	\$25,813,404	\$25,234,725	\$578,679
2007	\$28,942,273	\$28,480,187	\$462,086
2008	\$32,482,114	\$31,798,335	\$683,779
2009	\$29,400,652	\$28,447,704	\$952,948
2010	\$35,649,479	\$34,870,594	\$778,885
2011	\$33,146,637	\$32,599,678	\$546,959
2012	\$38,457,715	\$36,194,018	\$2,263,697
2013	\$35,596,727	\$34,419,654	\$1,177,073
2014	\$35,099,615	\$30,849,530	\$4,250,085
2015	\$44,673,283	\$42,484,756	\$2,188,527
2016	\$43,495,262	\$43,804,006	(\$308,744)
2017	\$42,106,560	\$43,115,690	(\$1,009,130)
2018	\$44,774,568	\$49,509,206	(\$4,734,638)
2019	\$43,281,455	\$50,382,807	(\$7,101,352)
2020	\$52,153,189	\$50,599,920	\$1,553,269
2021	\$57,937,204	\$59,429,118	(\$1,491,914)

Source: SCAG Comprehensive Annual Financial Reports

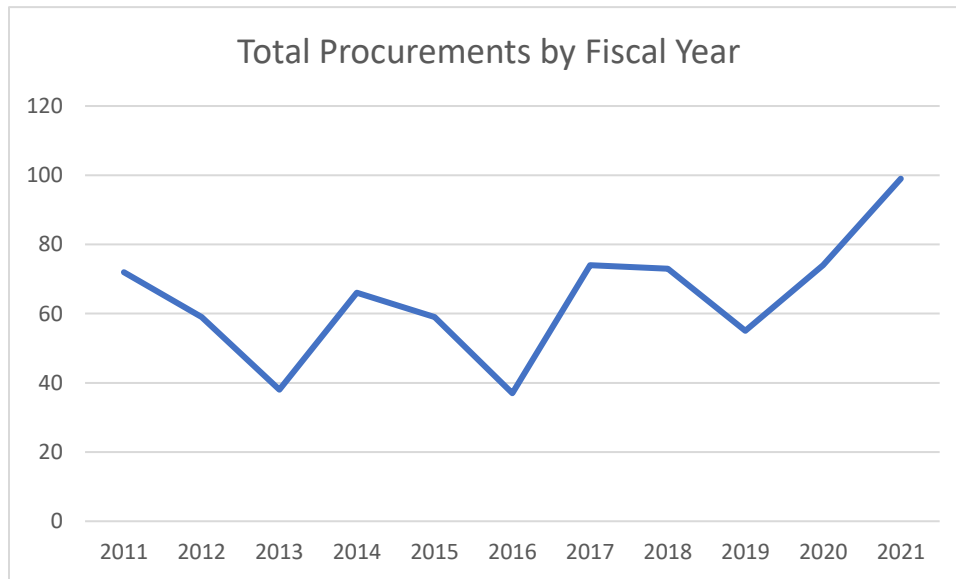
These revenue and expense increases follow an increase in the quantity and types of planning projects by SCAG. For example, the increase in expenses by nearly \$9 million from fiscal year 2020 to fiscal year

2021 was mostly attributable to increases in sustainability initiatives. Procurement processes that may have worked well for SCAG as a smaller agency could require more advanced systems as the organization grows.

According to SCAG’s annual financial report, in fiscal year 2021, salary expenses were the largest expense at \$17.6 million which represent about 29.6% of total expenses. Consultant expenses were the next largest expense line item at \$17 million which represent about 28.7% of total expenses.

Procurements by Fiscal Year

SCAG has in general experienced growth in procurements in recent years. Staff estimate that total procurements in fiscal year 2022 will continue this trend.

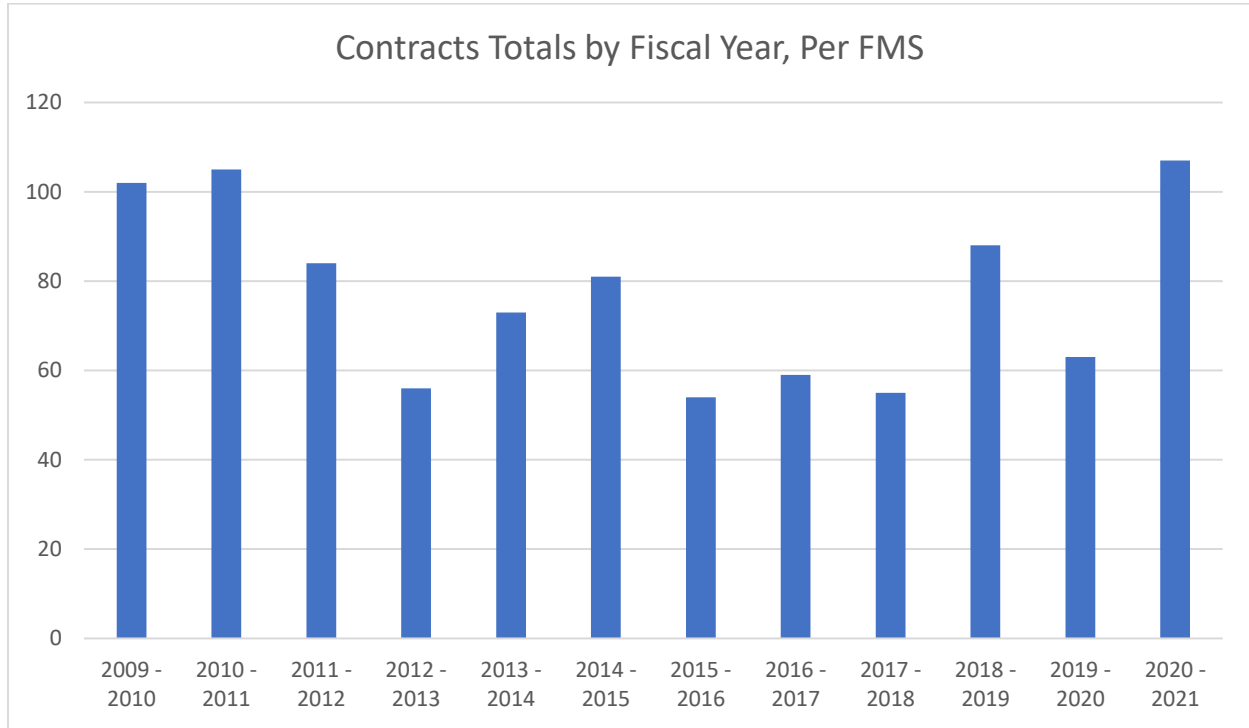


**Procurements by Fiscal Year
(including RFIQs)**

Fiscal Year	Procurements	Cancelled	Total Procurements
2011	85	13	72
2012	69	10	59
2013	46	8	38
2014	70	4	66
2015	67	8	59
2016	44	7	37
2017	75	1	74
2018	83	10	73
2019	65	10	55
2020	88	14	74
2021	101	4	97

Contracts by Fiscal Year

SCAG has experienced recent growth in the number of contracts and expects significantly more growth in the current fiscal year.

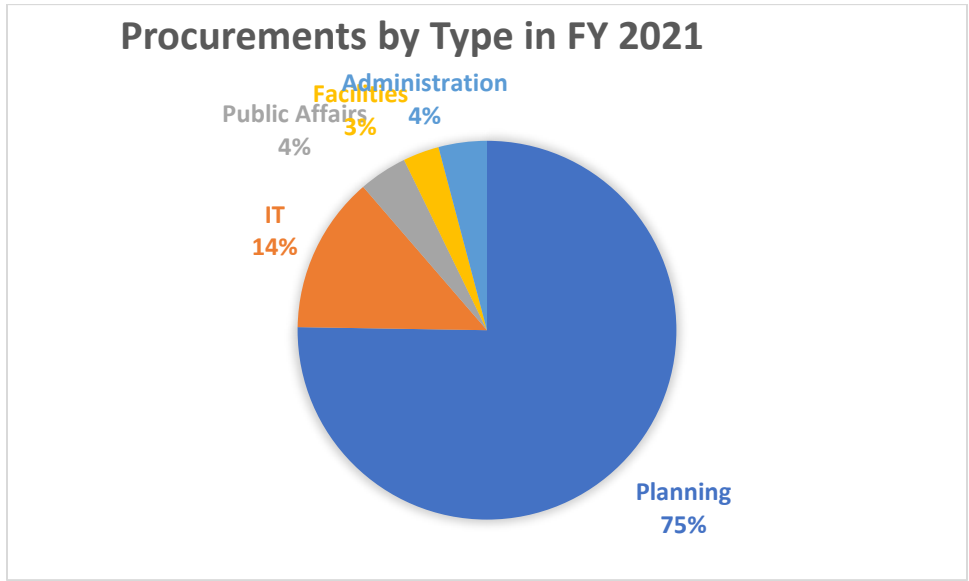


Contracts Totals by Fiscal Year	
Fiscal Year	Count of Contracts
2009 - 2010	102
2010 - 2011	105
2011 - 2012	84
2012 - 2013	56
2013 - 2014	73
2014 - 2015	81
2015 - 2016	54
2016 - 2017	59
2017 - 2018	55
2018 - 2019	88
2019 - 2020	63
2020 - 2021	107

SCAG has prepared for this growth by hiring new staff, increasing budgets, and improving policies and procedures for procurement and project management.

SCAG Procurement Statistics for Fiscal Year 2021

For fiscal year 2021, SCAG has 95 procurements, two Request for Interest and Qualifications, and four canceled procurements. The procurements show that as a Metropolitan Planning Organization, SCAG’s procurements are for planning projects or in support of those projects. 75% of procurements are for the Planning department hiring of consultants. 14% of procurements are for IT software, hardware, and services. A relatively smaller number of procurements are for Public Affairs, Facilities, and Administration.



Procurements by Type for Fiscal Year 2021

Type	Count	Procurements %	Contracts \$ Amount	\$ %
Planning	71	75%	\$ 15,385,967	73%
IT	13	14%	\$ 4,726,435	22%
Public Affairs	4	4%	\$ 576,340	3%
Facilities	3	3%	\$ 272,434	1%
Administration	4	4%	\$ 254,580	1%
Total	95		\$ 21,215,756	

Note: there are several procurements from this period which are still in progress, so there is no contract \$ amount yet.

Description of the Procurement Process

SCAG's procurement process involves collaboration between the departments of Contracts, Planning, IT, Legal, Budget & Grants, and other staff. (See the flowchart on page 27 for a visualization of SCAG's procurement process.)

The Regional Council approves project funds. Caltrans approves the Overall Work Program. Budget & Grants confirms the project budget in the Overall Work Program. The Division Director approves the project for procurement. The Division Director or Manager assigns a Project Manager (PM) to the project. The Project Manager prepares the Solicitation Intake Form (SIF), Scope Of Work (SOW), Independent Cost Estimate (ICE), Evaluation Criteria, and sends these documents to the Contracts Manager, who reviews these documents and assigns a Contracts Administrator to the project. The ICE should be signed and dated by the Project Manager with their estimate of the expected cost of the project. The Project Manager prepares a schedule of the project timeline from project work plan to final report.

The Project Manager creates a requisition in the *WorkPlace* system for the project using information from the ICE and SOW. The Contracts Administrator enters a Purchase Order in *MS Dynamics GP*. The Contracts Administrator enters procurement information into the *Financial Management System (FMS)* throughout the course of the procurement.

The Contracts Administrator and Project Manager guide the Request for Proposal (RFP) process as part of each procurement. The RFP document is reviewed and approved by Contracts staff and the project staff. There are seven approvers on the RFP approval form.

SCAG uses PlanetBids.com for its RFP process to advertise its projects to potential vendors/consultants, respond to vendor questions, receive vendor bids, and post the Notice of Intent to Award (NOI) to inform bidders of the selected vendor for a project. Vendors submit proposals and Line-Item Budgets to SCAG for each project.

The Project Manager forms the Proposal Review Committee (PRC) to evaluate vendor bids. The PRC can be made up of SCAG staff, Caltrans staff, officials of related government agencies, and knowledgeable interested parties, depending on the nature of the project. The Project Manager informs PRC members about the RFP process and requirements. PRC members sign Conflict of Interest forms indicating they can form independent judgements of vendor bids. The PRC interviews vendors to obtain additional information, although these interviews are optional. All PRC members must attend the live interviews, which the Project Manager schedules and coordinates. Each PRC member scores vendor proposals using the Proposal and Interview Evaluation Form, and the Project Manager aggregates the scores.

For some parts of a consultant procurement that uses a Caltrans administered fund, SCAG gets the written approval of Caltrans. This involves sending an email to a Caltrans department or staff, and there can be consultation back and forth before SCAG gets an approval to move forward with the procurement. Some approvals are by Caltrans District 7 (Los Angeles), and some are by the Caltrans headquarters. These approvals can take four weeks or longer. These approvals are required by Caltrans for a Disadvantaged Business Enterprise (DBE) calculation for some federal grants. Also, a sole source bid requires an approved Public Interest Finding Form. An Architectural and Engineering consulting engagement requires a pre-award review by SCAG staff and the Caltrans Form 10H approval by Caltrans.

The Project Manager prepares a written record of the basis of selection of a vendor, a Proposal Review Committee Evaluation Form, an Analysis of Cost Proposal, and a Cost Negotiation Record.

The Contracts Administrator performs a pre-award review of vendor direct labor cost, overhead, and fringe. The Contracts Administrator performs a debarment check using sam.gov, insurance check, and reference check for the vendor selected. The Contracts Administrator sends a Notice of Intent (NOI) to Award to vendors, informing the applicants of the selected vendor, using PlanetBids.com.

The contract is routed and approved with nine approvers on the routing form. The contract is signed by the CFO, Legal, and executed. The Regional Council approves if the dollar amount is greater than \$200,000. The Contracts Administrator sends a Notice to Proceed (NTP) to the selected vendor.

Contract Amendment(s) are done if the dollar amount of the vendor changes, the scope changes, or the vendor/consultant substitutes different staff or subconsultants than were included in their original proposal. The Contract Amendment Request Form is used and routed to nine staff, like the Contract Request Form. The Regional Council approves if the dollar amount is greater than \$75,000 or the increase is 30% or greater.

At the conclusion of the procurement process, when the vendor has completed their work in the period allowed by the contract, the Project Manager completes a Contract Close Out Form and does a written evaluation of the contract performance by the vendor/consultant. The Project Manager and Contracts Administrator confirm the receipt of all deliverables as specified by the contract and Scope of Work.

Software for Procurement at SCAG

SCAG uses three software systems in its procurement process:

WorkPlace	MS Dynamics GP	Financial Management System (FMS)
<ul style="list-style-type: none"> ➤ For <u>Purchase Requisitions</u> entry, approvals, and tracking. 	<ul style="list-style-type: none"> ➤ For <u>Purchase Orders</u> entry, approvals, and tracking. ➤ Dynamics includes accounting and Accounts Payable functions. 	<ul style="list-style-type: none"> ➤ Lists <u>procurements</u> by ID, name, contract value, Contracts Administrator, Project Manager. ➤ Has milestone dates for Statement of Work, Request For Proposal, Notice to Proceed. ➤ Lists contracts by agreement number, name, payment method, award amount, status. ➤ Has notes on progress. ➤ This information is entered separately by staff, for reporting purposes. ➤ Creates procurement status reports for SCAG management and Caltrans. ➤ SCAG uses FMS extensively for budgeting.

SCAG does not have a single, unified software system to track procurements. In addition to the three systems above, many of the procurement process documents use MS Office and email. Having more than one system requires accessing each of those systems separately and information be entered more than once, causing duplications of effort. (See Data Observation 2 on page 24.)

OBSERVATIONS AND RECOMMENDATIONS

There are three categories of observations: procurement, process, and data.

Procurements Observation 1: Solicitation Intake Form (SIF)

The Solicitation Intake Form (SIF) is a control developed by staff to ensure that Project Managers include all required document information (Scope of Work, Independent Cost Estimate, Requisition, etc.) to begin a procurement. Though the SIF has been used for several years at SCAG, it was formally included in the *Procurement Policy & Procedures Manual* on February 11, 2021. In procurements for fiscal year 2021, 14 procurements did not have a SIF, but these procurements began prior to February 11, 2021. There were three procurements without SIFs after that date.

Recommendation

Staff should ensure that all procurements have a Solicitation Intake Form.

Management Response

Currently, SCAG's procurement procedures do not require the inclusion of the Solicitation Intake Form (SIF) in the procurement file. The form was developed as a tool for project managers to ensure that they have collected/prepared all the requisite information to initiate a procurement and to allow for more efficient processing. For certain procurements (typically where all the requirements have already been gathered and provided to the CA) the CA may not consider the SIF necessary and may elect to proceed with the procurement without a SIF. In these cases, if required, the SIF may work contrary to the efficiency goals of the form. As noted in your findings, since the initiation of the SIF, only three procurements have been completed without a SIF, which Management believes confirms the broad use of the form except in specific cases.

Procurements Observation 2: Independent Cost Estimate (ICE) Completion Dates

Project Managers are required to prepare an Independent Cost Estimate (ICE) prior to doing an RFP that will evaluate cost estimates (line-item budgets) submitted by vendors. Each ICE should be signed and dated prior to the submissions by vendors to demonstrate that the estimated dollar amounts were not influenced by and are independent of vendors' estimates.

In forty-three procurements in fiscal year 2021, the ICE was prepared but not signed and dated. However, in most instances, the date of the ICE could be determined by the email date of when the ICE was sent by the Project Manager to Contracts. In some instances, only the Excel file with the ICE existed in the Contracts files, and the metadata of the file could be used to determine the completion date. However, for audit trail purposes, following the policy of signing and dating the ICE is preferable.

Recommendations

1. Project Managers should ensure that they sign and date each Independent Cost Estimate (ICE) when completed.
2. This ICE date information should be recorded in the procurement system. By having ICE information in a database, the date the ICEs were completed would be preserved as evidence of the timing.

Management Response

While the current practice of accepting a signed or emailed ICE is compliant with SCAG's procurement manual, staff agrees that a signed and dated ICE would provide a stronger audit trail. Management will revise the procurement manual to require either a wet or digital signature and dated ICE.

Procurements Observation 3: Reference Checks of Consultants

Contracts Administrators do reference checks of consultants using email. This practice follows the SCAG *Procurement Policy & Procedures Manual* and Caltrans *Local Assistance Procedures Manual*. Reference checks aid the Proposal Review Committee in the selection of a consultant. Staff does not do reference checks for procurements that do not have RFPs, such as micro-purchases of \$10,000 or less, Master Service Agreements, IT hardware/software purchases, and sole source procurements. However, in some of the sole source procurements, a reference check could be a useful part of the procurement process to protect SCAG.

There were 15 mini-RFPs that did not have reference checks in fiscal year 2021. Staff noted that reference checks were not a requirement of the funding source, and the vendors for these procurements were "pre-qualified," but a reference check was not part of the pre-qualification. These procurements have six-figure dollar amounts contracts and together represent millions in contract dollar amounts.

Recommendations

1. Contracts Administrators or Project Managers should perform reference checks of consultants whenever possible.
2. If a vendor worked with SCAG on a recent procurement and SCAG performed a reference check, then staff should note the date of the last reference check in its records for the new procurement.

Management Response

Management agrees that reference checks can be a valuable tool for evaluating potential contractor/consultant performance. Management will revise the procurement manual to provide more clarity on when reference checks will be required and ensure that staff understands their responsibilities regarding reference checks.

Procurements Observation 4: Debarment Check

As part of the procurement process, Contracts Administrators do a debarment check of vendors using sam.gov. In some cases, firms signed a form stating they are not presently debarred, rather than an independent check being done by SCAG. Contract Administrators have not done debarment checks of Master Service Agreements (MSA) but have agreed to do so going forward.

Recommendation

In all procurements, Contracts Administrators should perform a debarment check using sam.gov.

Management Response

While none of the noted firms were debarred, management agrees that an independent debarment check should be performed by SCAG staff and that staff should not rely on checks completed as part of the MSA by other agencies. The SCAG procurement manual will be updated to make the requirement of an independent check clear.

Procurements Observation 5: Insurance Check

SCAG requires its contractors to maintain legal malpractice insurance. Contract Administrators add proof of insurance to the Contracts files. In three instances, we did not find evidence of insurance in the Contracts folders, but staff subsequently added the proof to the Contracts folder. In one case, the Contracts Administrator has requested proof of insurance from the vendor.

Recommendation

Contracts Administrators should ensure that proof of insurance is included in the Contracts folder for each procurement.

Management Response

The inclusion of proof of insurance is a clear requirement in the SCAG procurement manual. Management believes that this was an isolated and unintentional oversight on the part of the CA and not due to a lack of understanding or lack of an established department practice. Management has addressed the issue with the CA and reminded all CAs of the importance of ensuring a complete procurement file.

Procurements Observation 6: Notice of Intent (NOI) to Award

After a vendor has been selected in a Request For Proposal (RFP), the Contracts Administrator sends a Notice of Intent (NOI) to Award to vendors that applied. There were two instances in fiscal year 2021 where NOIs should have been sent but were not.

Recommendation

Contracts Administrators should ensure that they send a Notice of Intent (NOI) to Award to vendors for all RFPs.

Management Response

Executing an NOI is a clear requirement in the SCAG procurement manual. Management believes that both incidents were caused by an unintentional oversight on the part of the CA and not due to a lack of understanding or lack of an established department practice. Management has addressed the issue with the CA and reminded all CAs of the importance of ensuring a complete procurement file.

Procurements Observation 7: Justification for Vendor Rates and Sole Source

In some instances, more explanation was needed about how project managers determine consultant rates are fair and reasonable. A simple assertion is not sufficient. For example:

- 21-056 HR Cornerstone Training - The entire description of the Cost Price and Negotiation documents simply stated, “The Project Manager determined the rates were fair and reasonable.” More detail is needed.
- 21-051 RHNA Litigation Counsel Procurement - The sole source justification memo said, “the Executive Director made a determination that the purchase was in the best interest of the agency.” This is allowed under SCAG policy, but more detail would be helpful as to why sole source was the best option for SCAG.

Recommendation

Staff should ensure that sufficient detail is given to justify vendor rates and sole source justifications for procurements.

Management Response

Management has reviewed both instances and believes that fair and reasonable costs were obtained in both cases. However, management agrees that in these instances more detail could have been provided to support fair and reasonable costing within the procurement file.

PROCESS OBSERVATIONS AND RECOMMENDATIONS

Process Observation 1: Length of Procurements

According to the *SCAG Procurement Policy & Procedures Manual*, the longest a procurement should take is 15 weeks or 105 days. In fiscal year 2021, there were 35 procurements that took longer than 120 days from the start of the procurement to the date the vendor was authorized to start work. The procurement start was the date of the Solicitation Intake Form or Requisition, depending on which was available in procurement records. The vendor start date was of the Notice to Proceed, Contract Execution, or Purchase Order, depending on which was available. (See *Exhibit C - Days from Procurement Start to Vendor Start* on page 33.)

The average days of procurement by type were:

Procurement Type	Average Days from Procurement Start to Vendor Start
Administration	34
Facilities	69
IT	106
Planning	167
Public Affairs	177
Grand Average	145

Some of the sources of delays are:

- Completion of numerous procurement forms with required information and review of this information by Contracts staff. There are 46 documents and forms used by SCAG for procurements. (See *Exhibit A - Documents and Forms Used by SCAG for Procurements* on page 26.)
- Time to revise documents such as Scope of Work so that it includes required elements.
- Volume of required tasks for each procurement, including checklist requirements. (See description of procurement process on page 10.)
- Time for approvals by multiple staff of RFPs, contracts, and contract amendments. (See *Exhibit D – Agreement Routing Form* on page 35 and *Process Observation 2* on page 18.)
- Timely scheduling of Proposal Review Committee members and consultant interviews.
- Time for approvals by Caltrans for:
 - Disadvantaged Business Enterprise calculations
 - Sole source approvals
 - Architectural and Engineering consulting. (See *Process Observation 3* on page 18.)
- Increasing volume of procurements due to new funding. (See *Growth at SCAG* on page 6.)
- Staff members may be on leave for an extended period, with no backup person, causing procurements to be delayed.
- Communications between staff to make sure all requirements for the procurement are met.
- Negotiation of contract terms and conditions with selected consultant.
- Project Managers must get the consultant agreement on the agenda for Regional Council approval.

Procurements can have numerous reasons for delay. As an example, one procurement, 21-015 Local Demonstration Initiative, took a year to complete. This procurement involved a consultant, KOA, and subconsultants, two of which were nonprofits. Delays occurred because Caltrans staff did not understand their requirements for financial reporting by nonprofit subconsultants.

If a procurement is over \$1 million, then Caltrans reviews the indirect cost rate, which was submitted to Caltrans on January 13, 2021, and then resubmitted because the first submission had a date in the incorrect format. Caltrans approved this procurement on August 31, 2021, over seven months later.

Consultants are responsible to create indirect cost rates, but the two nonprofits were small companies and had not done this type of reporting before. Caltrans told the two subconsultants to follow an incorrect regulation regarding their financial reports. The subconsultants changed their financial reports accordingly and then learned that form was not correct and had to resubmit using a different form. A different department at Caltrans reviewed the resubmission.

The two subconsultant contract amounts were \$33,000 and \$26,000, a relatively small part of the total costs of this procurement. Because this was an Architectural and Engineering (A&E) project, SCAG needed an Indirect Cost Acceptance form from Caltrans to proceed with the RFP.

SCAG could not negotiate with the vendor, KOA, until Caltrans approved. SCAG staff found it difficult to get answers from Caltrans. Caltrans has told SCAG staff that a minimum of four weeks is required before they will look at a package for compliance with their requirements. (See *Process Observation 3* on page 18.)

Recommendations

1. Staff should have triggers for significant delays to key procurement milestones so that issues are elevated to higher management's attention for resolution.
2. Staff should use a procurement information system that records the date of each significant milestone in the procurement. This will allow staff visibility into the status of procurements and whether any step is taking longer than expected. The system could have reports that show procurement steps that are over a threshold of days, directing staff attention to those delays. (See *Data Observation 1* on page 22.)
3. The first date that grant funds are eligible to be spent should be a prominent field tracked in a procurement information system. A procurement's milestones should be planned to allow completion of the procurement before the first day project funds can be spent. In addition, the final date that grant funds can be spent should also be a prominent field, allowing staff to continuously monitor the time remaining that funds can be spent and plan accordingly.

Management Response

Management agrees that a procurement automation/information system could significantly enhance process efficiency, transparency, and compliance. Projects of this magnitude generally require significant staffing and funding resources. Finance management will discuss the feasibility of a future system project with IT and Executive management. The timing of procurements is largely dictated by the planning staff who evaluate available funding and design projects to reach agency and funding objectives. It is not uncommon for project funding to change over time as more restricted funding or funding set to expire is swapped through budget amendments. That said, certainly ensuring the funding

timelines are met is an important priority and your recommendation will be given to the Planning division management for evaluation.

Process Observation 2: Approvals for Projects, RFPs, Contracts, and Contract Amendments

Approvals for Projects, RFPs, Contracts, and Contract Amendments are routed to as many as nine staff. Some require an approval by the same person twice. (See *Exhibit D - Agreement Routing Form* on page 35.) The routing form is a Word document that is emailed from one approver to another. The approvals are sent to each person on the routing list in order.

Recommendations

1. Management should reconsider authority to sign off on approvals and what items can be delegated.
2. Staff should evaluate whether all approvals are needed for the project and search for ways to reduce the number of required approvals.
3. SCAG should have each routing form reviewed and approved by a person only once.
4. Rather than doing approvals sequentially, management should consider pushing out approvals all at once for simultaneous approvals.
4. Management should consider implementing a hard deadline for each approval - for example, one week.
5. For each staff member in an approval chain, there should be assigned a backup approver, in the event the primary approver is on leave.
6. SCAG needs a system that will allow visibility by interested staff into the status of timing of approvals. The system should have reports that show the status of approvals, with each approver, dates due, late approvals, and days overdue. Reminders can be sent to approvers for late approvals.

Management Response

Improving document approval workflow has been identified as a Finance division priority for all departments including Contracts Administration. As part of an on-going workflow automation project, Finance has taken significant steps to document the approval routing of all finance documents and, as part of the process, has documented the purpose of each approval in the sequence and has identified those that seem unnecessary or redundant. While ultimately all finance departments will be included, Finance management has chosen B&G documents for the initial roll-out of workflow automation, mainly based on available staffing resources. Finance and IT are working closely together on this project with the goal being to initiate an RFP by mid-May.

Process Observation 3: Caltrans Approvals for Parts of SCAG Procurements

Caltrans now approves at least three parts of the SCAG procurement process:

- Disadvantaged Business Enterprise (DBE) calculation
- Sole Source procurement
- Architectural and Engineering (A&E) procurement.

Getting approval by Caltrans involves a SCAG Contracts Administrator preparing and emailing the necessary documents to a Caltrans department email address and waiting for a response from Caltrans. (See *Exhibit B - Flowchart of Procurement Process - Caltrans* on page 29.) There is often dialog by email to clarify requirements and SCAG sends additional information as requested. Typical times for each approval are two to four weeks, though longer times have occurred.

Regardless as to whether Caltrans approves a step in a procurement, SCAG remains responsible for the process being done correctly.

Recommendations

1. SCAG management should discuss with Caltrans the possibility of amending Caltrans' *Local Assistance Procedures Manual* (LAPM) to allow SCAG to go forward with procurements rather than waiting for approval by Caltrans for various steps of the procurement process. SCAG should issue regular reports or continuously make available dashboards of the status of all procurements that cover areas of interest to Caltrans, including DBE calculations, A&E procurements, and sole source procurements.
2. For sole source procurements, SCAG can also consider asking Caltrans to allow a dollar amount below which approval is waived.
3. SCAG should allow vendors and interested agencies like Caltrans to have visibility in SCAG's procurements' status using dashboards of apps such as Microsoft Power Business Intelligence.

Management Response

Management does not believe that it is within the spirit of the LAPM guidelines to proceed with a procurement without first obtaining required Caltrans approvals. However, management will submit the suggestions to Caltrans for consideration during the comment period for the next LAPM update.

Process Observation 4: On-Call Services Contracts

In fiscal year 2021, SCAG Planning used the Request for Interest and Qualifications (RFIQ) process to establish two on-call benches of consultants for contracting for two grant programs: *Regional Early Action Program* and *Transportation Finance, Goods Movement, and Transportation/Mobility Planning*. A key motivation for using the RFIQ process was to speed the procurement process for these large grant amounts.

For fiscal year 2021, 39 mini-RFPs were done using the pre-qualified benches of consultants. Of these mini-RFPs, six had one vendor apply, and seven had two vendors apply. In some cases, no vendors applied. In some cases, Contract Administrators or Project Managers re-advertised the project using PlanetBids.com to attract more consultant bidders for a project. This increases time for a procurement, typically an additional four weeks.

Recommendation

Management should reevaluate the use of on-call services contracts, benches, and mini-RFPs to assess whether the on-call process saves time and gets the best selection of consultants for SCAG's projects.

Management Response

SCAG currently has three active on-call/bench contracts, and each has offered its own advantages and disadvantages. Management is evaluating the success of each bench to determine best practices and conditions for maximizing success.

Process Observation 5: Procurements Not in Financial Management System (FMS)

SCAG uses FMS to track and report on its procurements. In fiscal year 2021, there were 39 mini-RFPs that used task orders, and these procurements are not in FMS because FMS does not have the capability for entering these types of procurements. If procurements are to be completely tracked in FMS, then all procurements should be in this system.

Recommendations

1. FMS should be altered to allow for the entry of task order procurements.
2. Management should consider storing procurements in a system that can accommodate variations in procurement information requirements. (See *Data Observation 1* on page 22.)

Management Response

Management agrees that the ability to include task order procurements in FMS would be useful. Management will discuss the recommendation with Executive Management and IT for allocation of needed resources.

PROCESS Observation 6: Regional Council Approval of Contracts

The dollar threshold for Regional Council approval of contracts is \$200,000, and contract amendments are \$75,000 or a 30% increase. Project Managers must submit their project for approval before moving forward with a procurement and get on the schedule for the Regional Council, often causing a delay of a month or two for the procurement.

Recommendation

The Regional Council and executive management should consider increasing the dollar thresholds for Regional Council approval of procurements and contracts.

Management Response

Management agrees that increased thresholds would improve the efficiency of the procurement process. Management will discuss options for thoughtfully increasing approval thresholds with Executive Management.

Process Observation 7: Structure of Contracts Department Staff Organization

The Contracts Department is headed by the Contracts Manager, and all procurements go through him for review and approval. He receives the initial documents to begin a procurement. He assigns a procurement to one of eight Contracts Administrators. He reviews and approves all RFPs and contracts to ensure completeness and correctness. Each of these approvals represents extensive review of documents, with versions of documents circulated among the participants in the procurement for their contributions.

Recommendations

1. Management should consider creating a Contracts Manager deputy position or assistant manager to the Contracts Manager. This assistant manager could have the authority to approve procurements, assign a Contracts Administrator, approve RFPs, and other procurement tasks. This could help relieve the administrative burden that is now on the Contracts Manager.
2. Contracts should consider a greater specialization of Contracts Administrators. For example, one Contracts Administrator could specialize in beginning the procurement process, another in RFPs, another in negotiations with vendors, and another in contract preparation. Also types of procurements could be specialized in terms of funding sources and size of procurements. Also, types of procurements could be automatically assigned to certain staff such as procurements for IT, Administration, Facilities, Public Affairs, or Planning. A Contracts assistant manager could triage procurements depending on these factors.

Management Response

Management agrees that one of the bottlenecks within the CA department is the required management reviews that currently can only be completed by the CA Manager. Adding a deputy/assistant manager position will provide needed management support and better position the department for future succession.

Process Observation 8: Quantity and Standardization of Forms for Procurement

SCAG's procurement process has numerous forms that require detailed information be inputted. (See *Exhibit A - Documents and Forms Used by SCAG for Procurements* on page 26.) In some cases, multiple versions of forms are used, such as for the Independent Cost Estimate. For Project Managers to keep track of these forms is cumbersome and time-consuming.

SCAGhub Forms Bank has a contracts folder with five forms in it, but this does not include all the required procurement forms. Project Managers often reuse forms from prior procurements or get forms from Contracts Administrators. There can be an issue with form version control, as the forms are updated to meet new requirements.

Recommendation

Contracts staff should have all required forms for procurement in one location readily available for Project Managers.

Management Response

Management agrees that documents could be better organized for Project Managers. Evaluating document organization will be part of a larger project that will completely reevaluate procurement procedures and the organization of the SCAG procurement manual.

DATA OBSERVATIONS AND RECOMMENDATIONS

Data Observation 1: Tracking Procurement Information and Processes

SCAG's procurement process includes not only the purchase of goods and services, but RFPs and contracting processes. As a Metropolitan Planning Organization, SCAG must ensure that its procurement processes follow the extensive laws and requirements of external government agencies that are funding sources for SCAG's activities. SCAG's procurement processes have been extensively audited by external government agencies, and SCAG's procurement records should document that its staff has fully followed all legal requirements.

SCAG's procurement process takes several months for each procurement, involves tracking a significant amount of data, uses numerous forms and checklists to help ensure that procedures are followed. There are numerous dates and requirements that need to be tracked. Reports are needed on the status of procurements. Documents from the process need to be preserved as evidence that processes were performed properly.

Numerous staff from various departments need to access information about procurements as a regular part of their job duties. Contracts Administrators and Project Managers need to track procurements to ensure that due dates are met, and processes are performed timely and completely.

SCAG's procurement process has evolved from when SCAG was a smaller organization with fewer procurements and less variety of types of procurements. Documents related to each procurement are kept in folders on a shared drive. The folder for one procurement can contain over a hundred files. Files may be stored within emails or in subfolders. The documents are in various formats: Word, Excel, PDF, Outlook. To find a piece of information on a procurement, such as a dollar amount or milestone date, involves searching through numerous files, which is cumbersome and time-consuming.

Contracts Administrators can have different schemes for storing documents related to a procurement. An issue is that staff use the folders for working or transitional documents, blank forms, and final documents that need to be preserved for audit purposes. A structure of subfolders has been created for the files, but staff do not consistently follow this structure, and the files required have been subject to change. Procurement information is not aggregated for reporting processes, although that information would be useful for tracking purposes.

SCAG uses three software systems for parts of the procurement process, as well as external systems such as PlanetBids.com, but there is no system that tracks each procurement completely from start to finish. Staff are required to shift to different systems as part of performing a procurement, which causes staff to expend more time and effort to accomplish procurement tasks and requires duplication of effort in inputting information.

Because of the volume of procurement information required, staff face cumbersome processes to record, locate, and process necessary information. Staff need greater visibility into the status of procurements as they go through approvals, RFPs, and completions of procurements.

Recommendations

SCAG management should consider the consolidation of procurement information into a database that is customized to follow SCAG's procurement processes and requirements. SCAG has several forms and

checklists that should be standardized for procurement processes. (See *Exhibit A* on page 26.) The forms could be recreated for data entry purposes to help ensure that required pieces of information are not unintentionally missing. In addition, a database system should have reports that could show in real time a procurement status, what items are missing, due dates, late items, time remaining to completion, and other items that SCAG managers would find useful to track. This information could also be aggregated to show all procurements, or types of procurements within a period, or procurements that exceed thresholds such as dollar amounts or time periods. This would allow managers to be more aware of and focus on procurements that threaten to go over-time or over-budget. Other reports could be created based on reporting requirements to Caltrans, state agencies, and federal agencies.

The system should be flexible to adjust for different types of procurements, depending on funding source requirements, and allow for potential future changes in procurement rules.

Use of a single relational database for procurements has several advantages over the current procurement processes, in which forms and checklists are used in the form of Word or Excel documents. Because the same information fields are repeated in numerous documents, a database would reduce the repetitive data entry by staff and the risk of inconsistent data. Ideally, a field of information would only need to be entered once, rather than multiple times in different systems and correspondences related to a procurement. The same fields and forms would be used by all staff for procurements and simplify the process. Standardization of processes and how procurement information is stored would reduce the learning curve for procurements by new staff, and managers would readily know where to look for information about a procurement because the information would be stored in one database, rather than across multiple folders and files.

In addition, certain procurement processes are required to be done in sequence. For example, an Independent Cost Estimate is required to be completed before a cost estimate is received from vendors. A database could store evidence of the dates that milestones of processes are completed. This sequence of date fields of milestones would allow staff to track a procurement and give visibility into any unusual delays of any required milestone. The database could also show that all required procurement processes have been completed.

Some documents such as routing of approvals for RFPs, routing of approvals for contracts and amendments, and other forms require approval by as many as nine staff. (See *Exhibit D - Agreement Routing Form* on page 35.) A software system could allow for approvals without use of email. A system should provide notifications to staff when their approvals are needed, and that would allow staff at any time to see the status of approvals and would help prevent unnecessary delays.

Management Response

As previously mentioned, improving document approval workflow has already been identified as a Finance division priority for all departments including Contracts Administration. Finance has taken significant steps to document the approval routing of all finance documents and, as part of the process, has documented the purpose of each approval in the sequence, eliminating those that seem unnecessary or redundant. While ultimately all finance departments will be included, Finance management has chosen B&G documents for the initial roll-out of workflow automation, mainly based on available staffing resources. Finance and IT are working closely together on this project with the goal being to initiate an RFP by mid-May.

Management agrees that additional technology/systems could greatly benefit the procurement process/cycles. This issue will be discussed by Executive Management for funding prioritization and for prioritization for the allocation of needed IT resources.

Data Observation 2: Multiple Software Systems for Procurement

SCAG uses three software systems in its procurement process:

- *WorkPlace* - For Purchase Requisitions entry, approvals, and tracking
- *Microsoft Dynamics GP* - For Purchase Orders entry, approvals, and tracking
- *Financial Management System (FMS)*
 - Lists procurements by ID, name, contract value, Contracts Administrator, Project Administrator
 - Has milestone dates for Scope of Work, Request For Proposal, Notice to Proceed
 - Lists contracts by agreement number, name, payment method, award amount, status
 - Has notes on progress
 - Creates procurement reports for Caltrans.

Use of three systems requires that staff involved with procurements access each system, with duplicate information, creating inefficiencies. This information is entered separately by staff for record keeping purposes.

Recommendations

Management should consider having one software system for the procurement function. Alternatively, the systems could interface to exchange information, requiring less cumbersome movement between systems by users.

Management Response

Management agrees that additional technology/systems could greatly benefit the procurement process/cycles. This issue will be discussed by Executive Management for both funding prioritization and the allocation of needed IT resources.

Data Observation 3: Tracking Procurements Status

Because of the volume of detail, there can be a lack of visibility in the status of procurements. If managers and staff had easier and greater access to this information, it could help them monitor and ensure that information is acted on timely.

Recommendation

Use MS Power BI to track procurements. Dashboards should follow key metrics, e.g.:

- Procurements days since the beginning (Solicitation Intake Form date)
- Days waiting for approvals from external agencies
- Days until grant spending can begin and end
- Dates of various milestones of the procurement process.

Management Response

Management agrees that additional technology/systems could greatly benefit the procurement process/cycles. This issue will be discussed by Executive Management for funding prioritization and for prioritization for the allocation of needed IT resources.

Data Observation 4: Centralize Independent Cost Estimate (ICE) Information

In many procurements, Project Managers start from scratch to find cost information about expected costs for a new consulting engagement. Because of the unique nature of many SCAG Planning projects, cost information about new consulting engagements is often not readily available. Past contracts are stored separately in separate folders under Contracts, and some contracts are stored on SCAGhub, but contracts are in PDF format, and thus must be opened one at a time and searched for information that may be relevant. Past procurements done by SCAG may have cost information that is comparable to new procurements, but this information can be difficult for staff to find.

Caltrans uses a system to aid with preparing cost estimates called *Basic Engineering Estimate System (BEES)* that allows their project managers to access historical cost data and apply this information to new projects.

Recommendations

Management should authorize a database of procurement Independent Cost Estimates and actual costs from past procurements that will aid staff in the preparation of ICEs in new procurements. The database should:

- Catalog each task level area of the procurement
- Include the number of hours on each task
- Collect actual costs of past procurements
- Include invoice information of similar projects.

Management Response

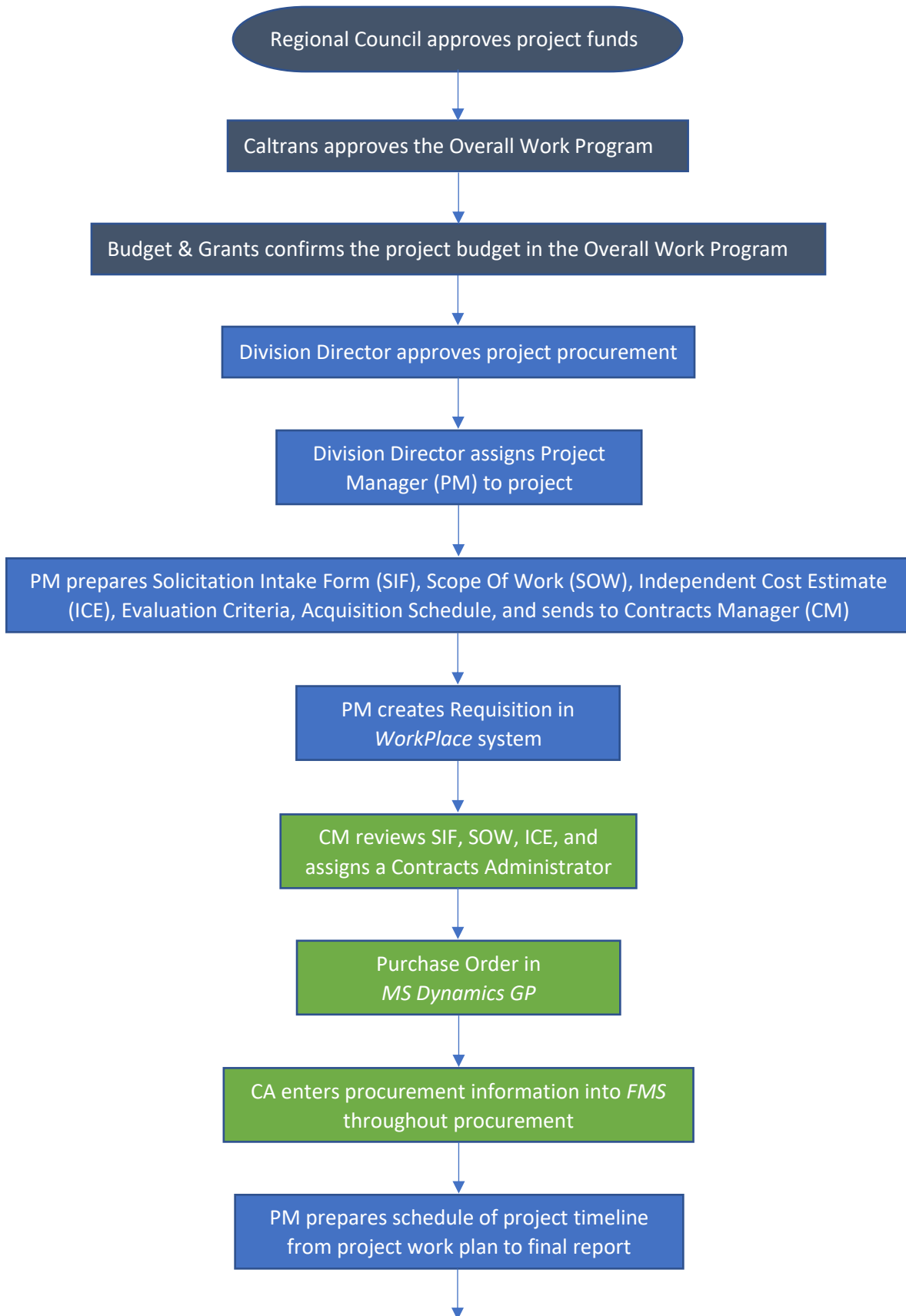
Management agrees that creating a searchable bank of sample Independent Cost Estimates for Project Managers would be useful. Maintaining the database manually would be additional administrative work for already strained CA staff. This recommendation is best considered in context with system enhancement recommendations.

Exhibit A - Documents and Forms Used by SCAG for Procurements

1. **Solicitation Intake Form** – starts the procurement process for the Contracts Department, completed and submitted by the Project Manager. Includes funding source information and acquisition schedule.
2. **Requisition** created using *WorkPlace* system. A requisition encumbers the project's funds in FMS and shows staff approvals.
3. **Scope of Work (SOW)** – description of project tasks and deliverables, text document written by the Project Manager
4. **Independent Cost Estimate (ICE) form** – uses sources to estimate what the services are expected to cost, prepared by the Project Manager
5. **Proposal And Interview Evaluation Criteria Form** with points for each criterion, used by evaluators during RFP selection, prepared by Project Manager
6. **Project Schedule** of project timeline from project work plan to final report. An Excel document prepared by the Project Manager.
7. **Purchase Order form** from *Microsoft Dynamics Great Plains* system
8. **Disadvantaged Business Enterprise (DBE) Information form** from State of California
9. **Consultant Contract Disadvantaged Business Enterprise Commitment Form** – describes work and dollar amount, signed by a consultant representative
10. Caltrans approval of DBE goal, by email
11. **Request For Proposal (RFP)/Contract Processing Checklist**, used by Contracts Administrator
12. **Request for Proposal (RFP)** – document that describes project requirements and timeline for proposal, prepared by Contracts Administrator
13. **Request For Proposal (RFP) Approval Form** – initialed by seven SCAG staff, includes rationale for procurement method and contract type
14. RFP reports from PlanetBids.com on bids submitted from vendors for project advertised
15. Bidders List – with vendors/consultants that applied to SCAG to do the project
16. Questions/Answers for vendors
17. **Proposal Review Committee (PRC) Acquisition Schedule**
18. **Proposal Review Committee Memo** with instructions for reviewing consultant proposals
19. **Non-Disclosure/Conflict of Interest Statement** signed by Proposal Review Committee members
20. **Consultant Selection Form** – signed by PRC members, indicates no conflict of interest
21. **Proposals** documents submitted by consultant applicants
22. **Line Item Budget (LIB)** – spreadsheets prepared by consultants with cost estimate of direct labor, overhead, fringe, fees, and other direct costs
23. **Price Sheet – Milestones** – schedule of budgeted cost for each project milestone
24. Available funding schedule – with project funding sources, funding amounts, and expenditures
25. Contract Spending Summary
26. **Interview Evaluation Questions**
27. **Scoring Summary** of consultants by PRC evaluators based on evaluation criteria
28. **Basis for Selection** – written description of why a consultant was chosen by the Proposal Review Committee (PRC)
29. **Cost/Price Analysis for RFP** written by SCAG staff
30. **Negotiation Record for RFP** written by SCAG staff
31. **Direct Labor Analysis** by SCAG Contract Department's staff

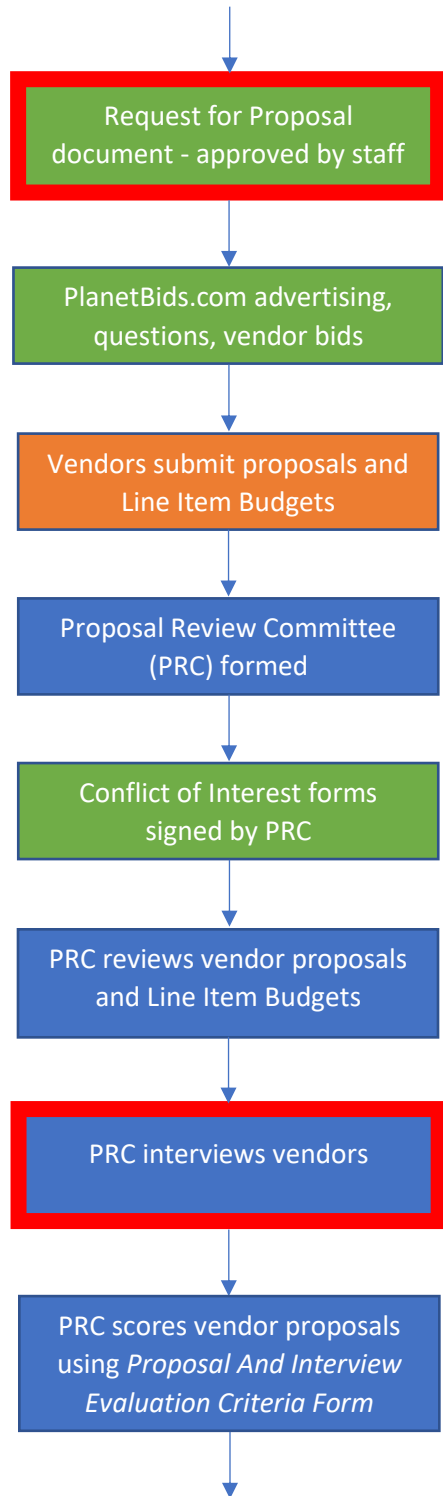
32. Reference checks checklist
33. Debarment search of consultant using website *System for Award Management*
34. **Certificate of Insurance** for consultant
35. **Notification of Intent to Award** sent by SCAG CA/PM to interested firms/consultants to inform them of the bidder/consultant selected by the Proposal Review Committee to do the project
36. **Regional Council Memo** for approval of contracts and amendments
37. **Agreement Routing Form** - initialed by nine SCAG employees to indicate contract agreement or amendment approval
38. **Notice to Proceed** – letter to consultant from SCAG Contracts Administrator authorizing consultant to begin project work
39. Deliverables from vendor – per contract agreement, meeting notes, reports, presentations, databases, etc.
40. Contract
41. **Contract Amendment Request Form (CARF)**
42. **Contract Amendment Processing Checklist**
43. Contract amendment(s) for changes to scope of work and/or costs
44. Information in *Financial Management System (FMS)* related to procurement entered by Contracts Administrator / Project Manager, for purposes of budgeting and reporting to Caltrans
45. **Contract Close Out Form**
46. Deliverables List

Exhibit B - Flowchart of Procurement Process at SCAG

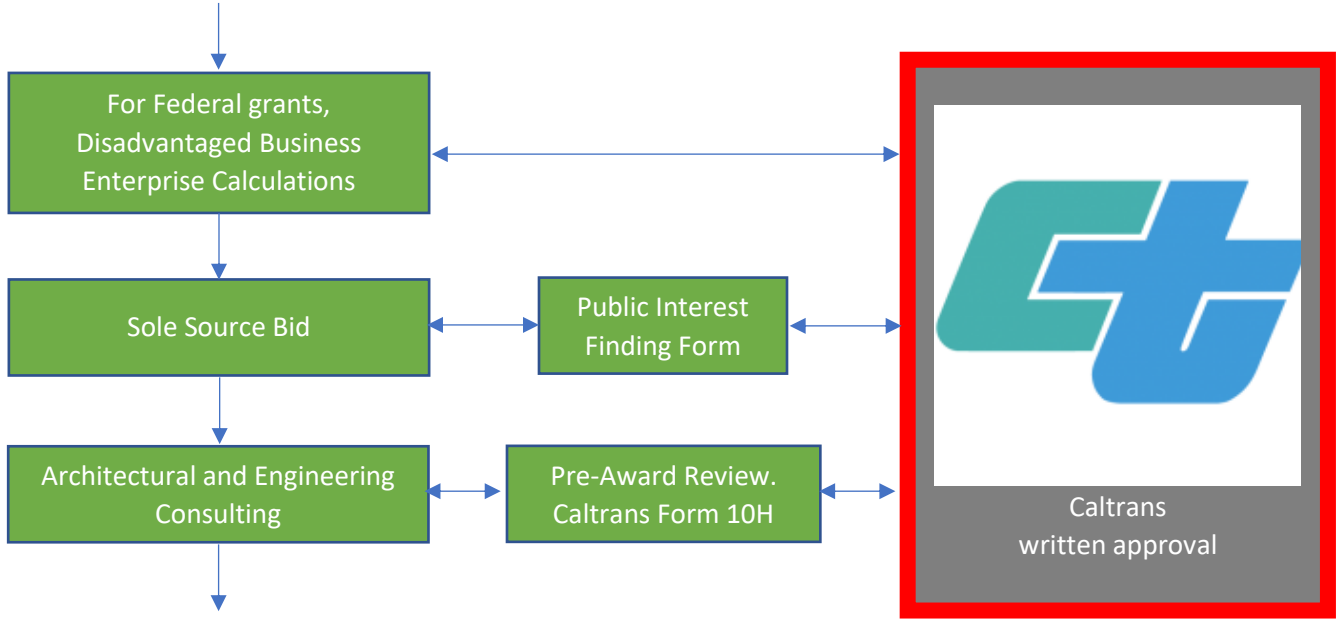


Attachment: Internal Audit Procurement Report (Internal Audit Procurement Report)

Request for Proposal (RFP)

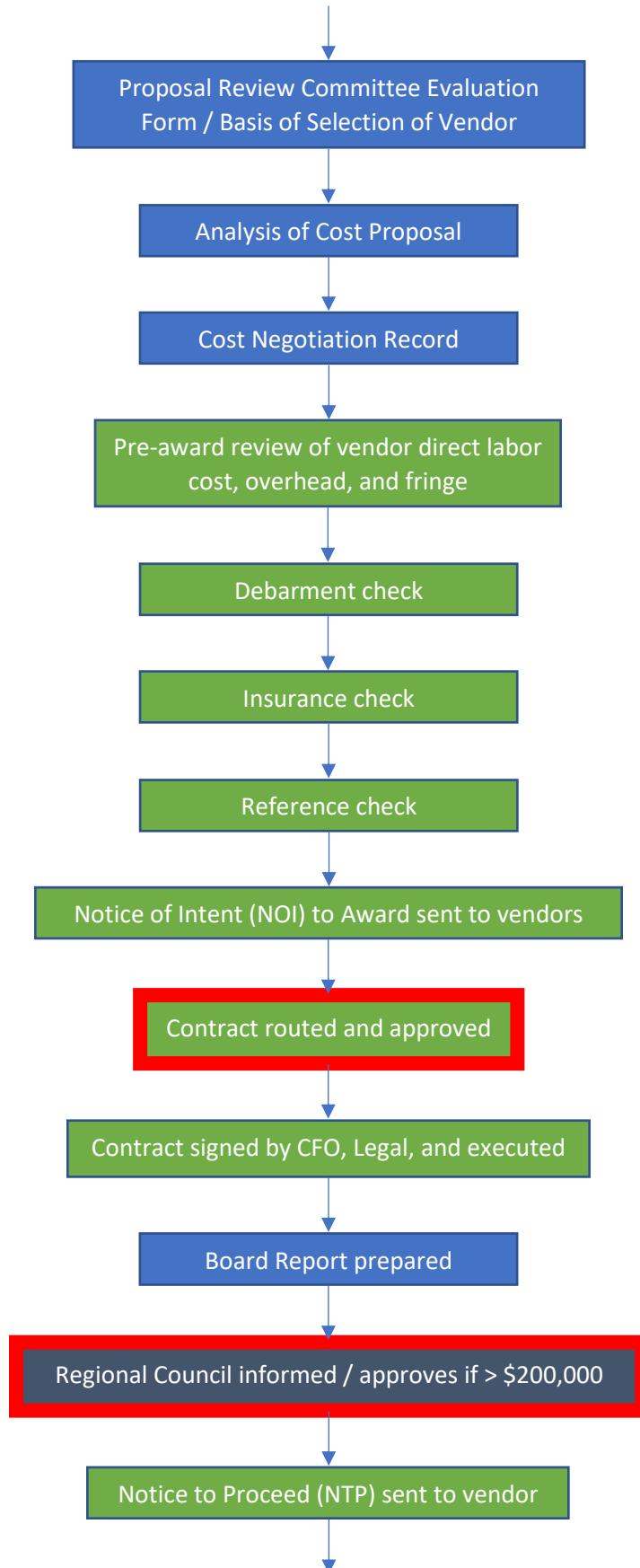


Caltrans Approvals (District 7 - Los Angeles and Headquarters)



Attachment: Internal Audit Procurement Report (Internal Audit Procurement Report)

Contract Approval Process



Contract Amendments and Close Out

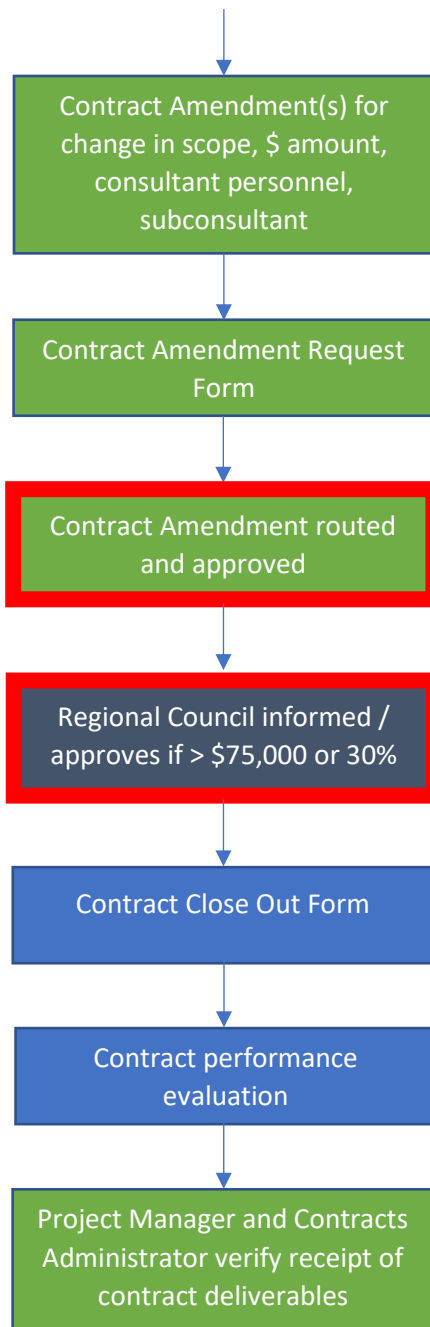


Exhibit C: Days from Procurement Start to Vendor Start

Start Date was of Solicitation Intake Form or Requisition.

Vendor Start Date was of Notice to Proceed, Contract Execution, or Purchase Order.

Project Number	Project Name	Procurement Type	Days from Procurement Start to Vendor Start
21-051	RHNA Litigation Counsel Procurement	Administration	119
21-065	Strategic Planning & Goal Setting for the EAC	Administration	8
21-060	FY22 DocuSign Licenses	Administration	7
21-056	HR Cornerstone Training	Administration	3
		Administration Average	34
21-022	Badge Reader (Badge Access in Stairwell)	Facilities	129
21-045	Cubicle Glass Installation	Facilities	42
21-023	AC for AV Room	Facilities	36
		Facilities Average	69
21-057	Relic Software Subscription	IT	253
21-054	AWS RDP Environment Setup	IT	246
21-039	Primary Datacenters Procurement	IT	190
21-032	Enterprise Business Intelligence	IT	169
21-041	Secondary Data Center	IT	97
21-059	eCognition Software	IT	62
21-040	Infrastructure Upgrade - Hardware-Software	IT	55
21-066	Desk Scheduling Software	IT	54
21-053	Gartner License Renewal	IT	50
21-030	Cloud Infrastructure	IT	36
21-013	QuickApps for Sharepoint per Front End Server	IT	30
21-014	Dell Laptops and Docks	IT	24
		IT Average	106
21-007	East San Gabriel Mobility Action Plan	Planning	398
21-015	Local Demonstration Initiative	Planning	364
21-044	Curb Space Management Study	Planning	359
21-052	2024 RTP/SCS Growth Forecast Consultant	Planning	302
21-006	Yucaipa Freeway Corridor Specific Plan Update	Planning	276
21-064	SoCal Goods Movement Communities Freight Impa	Planning	264
21-058	Heavy Duty Truck Model	Planning	231
21-037	Regional Dedicated Transit Lanes	Planning	215
21-033	Travel Demand Model Improvement and Validation	Planning	214
21-042	Caltrans SB 743 Grant	Planning	213
21-008	Kit of Parts Local Demonstrations	Planning	211
21-001	City of Avalon Active Transportation Plan	Planning	210
21-003	Walnut Park North-South Corridor Study	Planning	210
21-035	Transportation Broadband Strategies	Planning	206
21-047-MRFP04	WSCCOG REAP Subregional Partnership Program Pr	Planning	206
21-016	Imperial County Regional Active Transportation Plan	Planning	189
21-063	FY21 Scenario Planning Upgrade	Planning	184

Attachment: Internal Audit Procurement Report (Internal Audit Procurement Report)

21-038	MaaS Feasibility White Paper	Planning	180
21-018	Equity Economist	Planning	172
21-047-MRFP11	2-C (HSD) – Heart of Hollywood TIF Study	Planning	170
21-046	Regional Resilience Framework - Landscape Analysis	Planning	165
21-049	Parcel Data Purchase	Planning	165
21-043	I-710 N Mobility Hubs Plan	Planning	146
21-047-MRFP07	2-A (HSD) – EIFD Bundle	Planning	143
21-028	Safe and Resilient Streets Strategies Mini-Grants Pro	Planning	142
21-047-MRFP03	1-A (HSD) – Advanced ADU Bundle	Planning	139
21-036	Community Safety Ambassador Cohort Program	Planning	133
21-047-MRFP02	SCAG Development Streamlining	Planning	128
21-009	TRANSIT ASSET MANAGEMENT DATABASE HOSTING	Planning	118
21-047-MRFP15	3-E – South El Monte Zoning Update	Planning	115
21-047-MRFP16	3-C – Rialto Specific Plan Update	Planning	112
21-047-MRFP09	2-D (HSD) – One San Pedro EIFD Study	Planning	111
21-050	REAP Subregional Partnership Program – Project M	Planning	110
21-062	Commodity Flow Data	Planning	106
21-010	Randall Lewis Health & Policy Fellowship	Planning	104
21-026	Peer Exchanges	Planning	102
21-061	Truck GPS Probe Data	Planning	96
21-020	Analytic Platform for Regional Transportation Plann	Planning	89
21-047-MRFP01	Housing Policy Leadership Academy	Planning	88
21-047-MRFP06	1-B (HSD) – Preliminary ADU Bundle	Planning	87
21-024	University Collaboration Project - Mobility Innovatio	Planning	84
21-047-MRFP05	Other-to-Residential Toolkit	Planning	77
21-017	Supporting Infrastructure for Zero Emission Heavy D	Planning	68
21-067	FY22 Media Purchase	Planning	64
21-011	CivicSpark Housing and Climate Fellows	Planning	45
		Planning Average	167
21-002	Graphic Designer Consultant	Public Affairs	572
21-027	Facilitation Services - Equitable Cities	Public Affairs	60
21-005	State Advocacy Services	Public Affairs	48
21-021	Virtual Event Platform	Public Affairs	26
		Public Affairs Average	177
		Grand Average	145

Note: several procurements tested are still in progress, so not included in this list.

Agreement Routing Form

RC Date
(if applicable)

Requisition #:

Project Title/Description

Consultant/Vendor

Requested Action	<input checked="" type="checkbox"/> Contract <input type="checkbox"/> Agreement		<input type="checkbox"/> Amendment #		
	Approve With - No Deviations		Items to Amend (Check all that apply)		
	Amount:	\$ _____	<input type="checkbox"/> Amount:	\$ _____ From	\$ _____ To
	Term:	From _____ To _____	<input type="checkbox"/> Contract Term:	From _____	To _____
	Funded Amount:	\$ _____	<input type="checkbox"/> Scope of Work		
	Funding Source:	_____	<input type="checkbox"/> Schedule Exhibit		
	Funding Period:	From _____ To _____	<input type="checkbox"/> Line Item Budget		
	Project/Task Number(s):	_____		<input type="checkbox"/> Funding Exhibit	
			<input type="checkbox"/> Section [Specify no(s)]→:		
			<input type="checkbox"/> Other [Specify]→:		

Note - Your initials below indicate your approval of the Agreement, Contract or Amendment

<u>Reviewers</u>	<u>Initials</u>	<u>Date</u>	<u>Comments</u> (✓ if any)
① Contracts:	Ted Dorjee	_____	<input type="checkbox"/>
② Project Manager:	Lorianne Esturas	_____	<input type="checkbox"/>
③ Budget:	Erika Bustamante	_____	<input type="checkbox"/>
④ Internal Audit (review only):	N/A	_____	<input type="checkbox"/>
⑤ Accounting (review only):	Tom Philip	_____	<input type="checkbox"/>
⑥ Director/Executive Mgmt.:	Sarah Jepson	_____	<input type="checkbox"/>
⑦ Contracts Manager:	Leyton Morgan	_____	<input type="checkbox"/>
⑧ Legal:	Michael Houston	_____	<input type="checkbox"/>
⑨ CFO/Risk Manager:	Cindy Giraldo	_____	<input type="checkbox"/>
	For		
⑩ Consultant (Execution):	Date Contract Sent to Consultant	_____	
	Date Consultant Returned Contract	_____	
	Date Executed Copy Mailed	_____	
⑪ Legal (Execution):	Michael Houston	_____	<input type="checkbox"/>
⑫ CFO (Execution):	Cindy Giraldo	_____	<input type="checkbox"/>
⑬ DBE Data Entry:	TBD	_____	<input type="checkbox"/>

Attachment: Internal Audit Procurement Report (Internal Audit Procurement Report)



AGENDA ITEM 5
REPORT

Southern California Association of Governments
Remote Participation Only
July 27, 2022

To: Audit Committee (AC)
From: David James, Internal Auditor
(213) 630-1483, djames@scag.ca.gov
Subject: Internal Audit Status Report

EXECUTIVE DIRECTOR'S
APPROVAL

RECOMMENDED ACTION:

For Information Only – No Action Required

STRATEGIC PLAN:

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

EXECUTIVE SUMMARY:

The Internal Auditor has completed a draft audit report on invoice payments.

- *The Internal Audit of Regional Council stipends is in progress.*
- *The SCAG ethics hotline had no reports since the last Audit Committee meeting.*
- *SCAG has selected a new vendor for its ethics hotline.*
- *SCAG's ethics hotline with its new vendor is now in operation.*
- *Internal Audit plans to perform an audit of SCAG's payroll process.*

BACKGROUND:

SCAG's Internal Auditor performs assessments of SCAG operations, including evaluations of the effectiveness and efficiency of various departments, functions and evaluating governance, risk management, and internal controls. Internal Audit assists staff in efficient and effective discharge of responsibilities by providing independent analyses, appraisals, findings, and recommendations.

A. Internal Audit of SCAG's Invoice Payments

SCAG's Internal Auditor has completed a draft report on SCAG's invoice payments. When management has reviewed and commented on the report, Internal Audit will present a final version of the report to executive management and the Audit Committee.

Internal Audit performed this audit to determine whether invoices paid by SCAG were allowable, supported, and in compliance with SCAG's policies and procedures. The audit period covered fiscal year 2021.

B. Internal Audit of SCAG's Board Stipends

The internal audit of Regional Council stipends is in progress. The objective of the audit is to determine that Regional Council stipends were paid according to SCAG policy.

C. SCAG Ethics Hotline Reports Update

No reports were submitted to SCAG's ethics hotline since the last Audit Committee meeting.

D. SCAG Ethics Hotline New Vendor

SCAG has selected a new vendor for its ethics hotline: WhistleBlower Security Inc. This hotline can now be used. SCAG used its standard procurement and RFP process to select the vendor for the time after the previous hotline contract expired.

The SCAG Ethics Hotline is a method for reporting conduct that may be unethical, illegal, in violation of professional standards, or otherwise inconsistent with SCAG's policies.

Methods of reporting ethics hotline issues are:

- Toll Free Number: 1 (888) 952-6654
- Email: SCAG@integritycounts.ca
- Web: <https://www.integritycounts.ca/org/SCAG>

All SCAG staff have been informed by email about the new hotline methods of reporting potential issues. SCAG's webpage will be updated with the new hotline contact information.

E. Planned Internal Audit of SCAG's Payroll Process

The next planned internal audit is of SCAG's payroll process. Internal Audit will perform this audit at the request of SCAG management. This audit is planned to commence the first quarter of fiscal year 2023.

FISCAL IMPACT:

None.



AGENDA ITEM 6 REPORT

Southern California Association of Governments
Remote Participation Only
July 27, 2022

To: Audit Committee (AC)
From: Cindy Giraldo, Chief Financial Officer
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Subject: Finance Status Report

EXECUTIVE DIRECTOR'S
APPROVAL

RECOMMENDED ACTION:

Information Only – No Action Required

STRATEGIC PLAN:

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

EXECUTIVE SUMMARY:

SCAG staff had made significant progress during this past quarter in several key areas:

- *SCAG's external independent auditors, Eide Bailly, LLP, have started their interim audit of SCAG's FY 2021-22 financial statements. They will present the nature, timing, and extent of audit procedures to be performed at today's Audit Committee.*
- *SCAG's FY 2020-21 Indirect Cost Rate Plan is under review by FTA's Financial Management Oversight Contractor. SCAG staff has complied with all information requests and is awaiting the review results.*
- *Key finance staffing updates: Following an external recruitment, Mr. Emad Gewaily is SCAG's new Controller.*
- *A review and update of SCAG's employee travel and business expenses policy have been completed. All staff has received training, and the updated policy and training documents are available on SCAGhub.*
- *The responsibility of completing pre-award reviews has been transitioned to the Contract Administrators within the Contracts department. Since our last Audit Committee meeting, this negotiation process has achieved an additional \$257,721 savings.*
- *SCAG's Internal Auditor has completed an audit of SCAG's procurement process and has found SCAG to be generally in compliance with its policies and government regulations. An update on the status of management's responses to the audit findings and recommendations has been provided in Attachment 1.*

DISCUSSION :***A. FY 2021-22 Annual Comprehensive Financial Report (ACFR)***

Eide Bailly, LLP has started their interim audit of SCAG's FY 2021-22 financial statements. They will present the nature, timing, and extent of audit procedures at today's Audit Committee meeting. The final fieldwork that Eide Bailly will conduct is scheduled to start on September 5, 2022. The staff remains on target to file for the GFOA Certificate of Achievement for Excellence in Financial Reporting, due by the end of December.

B. FY 2021-22 FTA Indirect Cost Rate Proposal (ICRP) Review

In accordance with 2 CFR 200 Appendix V, the cognizant agency responsible for review and approval of the Indirect Cost Rate Proposal (ICRP) is the Federal agency with the largest dollar value of total Federal awards with a governmental unit. Upon reviewing SCAG's FY 2020-21 expenditure, the cognizant agency was determined to be the Federal Transit Administration (FTA) for SCAG's FY 2021-22 Indirect Cost Rate. SCAG staff prepared the FY 2021-22 ICRP in accordance with the FTA guidance and received a Negotiated Indirect Cost Rate Approval (NICRA) for the provisional indirect cost and fringe benefits rates in October 2021. Subsequently, an FTA financial management oversight (FMO) contractor was assigned to review SCAG's FY 2021-22 ICRP and offer technical assistance. The FTA FMO contractor is currently reviewing SCAG's FY 2021-22 ICRP documents and is anticipated to provide their report to FTA over the next month. The FTA will then consider the review results and issue the final FY 2021-22 indirect cost and fringe benefits rates. Once the final rates are approved, the updated NICRA will be submitted to Caltrans for review and approval. Effective July 1, 2022, Caltrans transitioned the responsibilities of performing the ICRP review for Local Public Agencies from the Independent Office of Audits and Investigations (IOAI) to the Caltrans Internal Audits Office (CIAO). SCAG staff will complete the required application forms per the CIAO's guidance and work with the CIAO staff to secure the Caltrans approval on SCAG's FY 2021-22 ICRP.

C. Key Finance Staff Update

An external recruitment to fill the Controller position, formerly Accounting Manager, has been completed, and the new Controller, Mr. Emad Gewaily, joined SCAG on February 28, 2022.

D. Travel and Business Expense Policy

SCAG recently completed a comprehensive update of the Travel & Business Expense Policy for SCAG employees. The updated policy complies with the Travel and Relocation Policy provisions, section 2201 of the Human Resources Manual of the State of California. The required forms for travel authorizations and expense reimbursements were also updated, and training was provided to all staff on June 29, 2022. The revised Travel & Business Expense Policy became effective July 1, 2022.

E. Pre-Award Review Update

As part of SCAG’s procurement policies and procedures, staff completes detailed pre-award reviews on high-dollar value consultant contracts. These reviews provide SCAG with a basis to reduce the contract price through negotiations with the winning bidder. With the vacancy (now filled) of the Internal Auditor position, the opportunity arose to evaluate the pre-award review process. While previously performed by the Internal Auditor, this responsibility has now been transitioned to the Contracts Department and is performed by Contract Administrators. This transition has thus far continued to be successful, with significant savings achieved. **Table 1** below shows Contract Administrators’ negotiation process since the last audit committee meeting.

Table 1: High-Value Contract Negotiation Results

RFP #	Firm	Propose Amount	Final Negotiated Amount	Negotiated Savings
21-048-MRFP 02	Kimley Horn	\$95,528	\$95,369	\$159
21-044-C01	IBI Group	\$617,063	\$613,868	\$3,195
21-048 MRFP 03	Walker Consultants	\$215,469	\$215,441	\$28
22-020-C01	Toole Design	\$869,857	\$615,518	\$254,339
Total		\$2,096,612	\$1,838,891	\$257,721

F. Update on Status of Procurement Audit Findings & Recommendations

SCAG’s Internal Auditor has completed an audit of SCAG’s procurement process and has found SCAG to be generally in compliance with its policies and government regulations. The report provided by the Internal Auditor, Mr. David James, includes management’s responses to each recommendation/finding. Attachment 1 provides an update on each item for action taken since the SCAG Internal Audit Report on Procurement was finalized.

FISCAL IMPACT:

None.

ATTACHMENT(S):

1. ATTACHMENT 1: Management Update on Status of Recommendations and Findings from the Internal Audit Report on Procurement

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Item	Item Title	Update	Status
Procurement Observation 1	Solicitation Intake Form	No Change	Complete
Procurement Observation 2	Independent Cost Estimate (ICE) Completion Dates	SCAG has revised and implemented the requirements for submitting ICEs. Project Managers are now required to submit a scanned ICE dated with a wet signature or a PDF that has been digitally signed.	Complete
Procurement Observation 3	Reference Checks	The staff has been trained on the requirement to complete reference checks. Clarifying language will be included in the next Procurement Manual update.	Pending Procurement Manual Update
Procurement Observation 4	Debarment Check	The staff has been trained on the requirement to complete debarment checks in all cases. Clarifying language will be included in the next Procurement Manual update.	Pending Procurement Manual Update
Procurement Observation 5	Insurance Check	No Change	Complete
Procurement Observation 6	Notice of Intent to Award	No Change	Complete
Procurement Observation 7	Justification for Vendor Rates and Sole Source	The staff has been trained on the requirement to ensure sufficient support is included in the procurement file to establish fair and reasonable costs.	Complete
Process Observation 1	Length of Procurements	No Change	Complete (future IT system project considered a long-term objective subject to prioritization and funding)
Process Observation 2	Approvals for Projects, RFPs, Contracts, and Contract Amendments	The workflow automation project has continued with good progress. The scope of work has been completed and the RFP is scheduled to be released this month.	In progress
Process Observation 3	Caltrans Approvals for Parts of SCAG Procurements	No Change	Pending the initiation of the next LAPM comment period anticipated in the Fall
Process Observation 4	On-Call Services Contracts	After interviews with SCAG's planning division project managers, overall feedback for on-call/bench contracts has been positive. Feedback on how the benches can be improved has been received and will be incorporated into future benches. Given the success of the on-call service/bench contract, SCAG will continue the use of this procurement tool when appropriate.	Complete
Process Observation 5	Procurements Not in Financial Management System (FMS)	The finance staff is working with the IT department to implement a solution for including all procurements in FMS.	In progress
Process Observation 6	Regional Council Approval of Contracts	If the Audit Committee is supportive of considering a recommendation to the Regional Council to increase dollar thresholds for contracts requiring Regional Council approval, staff will return to the Audit Committee with historical data and options for the Audit Committee to consider.	Pending Audit Committee Direction
Process Observation 7	Structure of Contracts Department Staff Organization	Finance management has met to discuss and evaluate the organizational structure of the Contracts Department. Future changes have also been identified through the Class and Compensation Study currently being completed by the Human Resources Division.	In progress
Process Observation 8	Quantity and Standardization of Forms for Procurement	The FY 22-23 budget includes funding for a complete rewrite of SCAG's procurement manual. This project will consist of an update to all standardized procurement forms. An RFP is being drafted to solicit consultants for this project, with the goal being to have a consultant on board by the Fall.	In progress

Data Observation 1	Tracking Procurement Information and Processes	No Change. The current focus is to review the efficiency of existing procedures and to complete a rewrite of the procurement manual before considering developing a new complex procurement system.	Complete (future IT system project considered a long-term objective subject to prioritization and funding)
Data Observation 2	Multiple Software Systems for Procurement	No Change. The current focus is to review the efficiency of existing procedures and to complete a rewrite of the procurement manual before considering developing a new complex procurement system.	Complete (future IT system project considered a long-term objective subject to prioritization and funding)
Data Observation 3	Tracking Procurement Status	No Change. However, the Workflow Automation Project currently underway will improve the tracking of procurement status (see Process Observation 2).	Complete (future IT system project considered a long-term objective subject to prioritization and funding)
Data Observation 4	Centralize Independent Cost Estimate (ICE) Information	No Change. The current focus is to review the efficiency of existing procedures and to complete a rewrite of the procurement manual before considering developing a new complex procurement system.	Complete (future IT system project considered a long-term objective subject to prioritization and funding)