



SOUTHERN CALIFORNIA
**ASSOCIATION of
GOVERNMENTS**

Main Office

818 West 7th Street

12th Floor

Los Angeles, California

90017-3435

t (213) 236-1800

f (213) 236-1825

www.scag.ca.gov

Officers

President

Michele Martinez, Santa Ana

First Vice President

Margaret E. Finlay, Duarte

Second Vice President

Alan Wapner, Ontario

Immediate Past President

Cheryl Viegas-Walker, El Centro

**Executive/Administration
Committee Chair**

Michele Martinez, Santa Ana

Policy Committee Chairs

Community, Economic and

Human Development

Bill Jahn, Big Bear Lake

Energy & Environment

Carmen Ramirez, Oxnard

Transportation

Barbara Messina, Alhambra

MEETING OF THE

AUDIT COMMITTEE

***Tuesday, August 16, 2016
1:30 p.m. – 3:00 p.m.***

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

Teleconference and Videoconference will be available

(Location information included in packet)

If members of the public wish to review the attachments or have any questions on any of the agenda items, please contact Carmen Summers at (213) 236-1984 or via email summers@scag.ca.gov.

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

www.scag.ca.gov/committees.htm

SCAG, in accordance with the Americans with Disabilities Act (ADA), will accommodate persons who require a modification of accommodation in order to participate in this meeting. SCAG is also committed to helping people with limited proficiency in the English language access the agency's essential public information and services. You can request such assistance by calling (213) 236-1993. We request at least 72 hours (three days) notice to provide reasonable accommodations. We prefer more notice if possible. We will make every effort to arrange for assistance as soon as possible.

Audit Committee Membership

August 2016

Members

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

Representing

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

Teleconference Locations

Hon. Margaret Finlay
2221 Rim Road
Duarte, CA 91008

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

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

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

Videoconference Locations

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

Hon. Cheryl Viegas-Walker

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

Hon. Carl Morehouse



This Page Intentionally Left Blank

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

INSTRUCTIONS REGARDING TELECONFERENCE

Teleconference number provided under separate cover

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

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

This Page Intentionally Left Blank

AUDIT COMMITTEE AGENDA AUGUST 16, 2016

TIME PG#

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

CALL TO ORDER & PLEDGE OF ALLEGIANCE

(Hon. Alan Wapner, Chair)

ROLL CALL

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

REVIEW and PRIORITIZE AGENDA ITEMS

CONSENT CALENDAR

Approval Items

- | | | | |
|--|-------------------|--|----------|
| 1. <u>Minutes of the June 15, 2016 Meeting</u> | Attachment | | 1 |
|--|-------------------|--|----------|

ACTION ITEMS

- | | | | |
|--|-------------------|---------------|----------|
| 2. <u>Fiscal Year (FY) 2016-17 Internal Audit Work Plan</u>
<i>(Richard Howard, Internal Auditor)</i> | Attachment | 10 min | 7 |
|--|-------------------|---------------|----------|

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

- | | | | |
|--|-------------------|---------------|----------|
| 3. <u>Selection of External Auditor</u>
<i>(Richard Howard, Internal Auditor)</i> | Attachment | 15 min | 9 |
|--|-------------------|---------------|----------|

Recommended Action: The Audit Committee needs to select as least one of its members to serve on the Proposal Review Committee for the selection of an external auditor for Fiscal Year 2016-2017.



AUDIT COMMITTEE AGENDA AUGUST 16, 2016

		<i>TIME</i>	<i>PG#</i>
<u>INFORMATION ITEMS</u>			
4. <u>Risk Assessment Input Form Report</u> <i>(Richard Howard, Internal Auditor)</i>	Attachment	15 min	11
5. <u>Travel Expense Review</u> <i>(Richard Howard, Internal Auditor)</i>	Attachment	10 min	17
6. <u>Internal Audit Status Report</u> <i>(Richard Howard, Internal Auditor)</i>	Attachment	10 min	19

FUTURE AGENDA ITEMS

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

ANNOUNCEMENTS

ADJOURNMENT

The next regular Audit Committee meeting will be held on Tuesday, November 29, 2016, at 2:00 p.m., at the SCAG Los Angeles Office, unless otherwise noted.

Audit Committee
of the
Southern California Association of Governments

June 15, 2016

Minutes

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

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

Members Present

Representing

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

SANBAG, 2nd Vice-President

Hon. Michele Martinez, Santa Ana

District 16, SCAG President
(Via Teleconference)

Hon. Margaret Finlay, Duarte

District 35, SCAG 1st Vice-President

Hon. Cheryl Viegas-Walker, El Centro

District 1, SCAG Imm. Past President
(Via Videoconference)

Hon. Carl Morehouse, San Buenaventura

District 47, SCAG
(Via Videoconference)

Hon. Edward H. J. Wilson, Signal Hill

Gateway Cities COG
(Via Teleconference)

Members Not Present

Hon. Glen Becerra, Simi Valley

District 46

Hon. Greg Pettis, Cathedral City

District 2

Guest Attendees

Mr. Mike Edmonds

ALGA (Via Teleconference)

Ms. Peggy McBride

Vasquez & Co. LLC

Ms. Linda Narciso

Vasquez & Co. LLC

CALL TO ORDER

Hon. Margaret Finlay, Vice-Chair, called the meeting to order at 1:40 p.m.

ROLL CALL

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

PUBLIC COMMENT PERIOD

None.

Audit Committee
of the
Southern California Association of Governments

June 15, 2016

Minutes

REVIEW and PRIORITIZE AGENDA ITEMS

There were no reprioritizations made.

SELECTION OF VICE CHAIR

A MOTION was made (Viegas-Walker) and SECONDED (Morehouse) to nominate Hon. Margaret Finlay as the Vice-Chair. The motion was passed by the following vote:

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

Hon. Alan Wapner, Chair, joined the meeting during the selection. After the vote, Mr. Wapner presided over the remainder of the meeting.

CONSENT CALENDAR

Approval Items

1. Minutes of the December 14, 2015 Meeting

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

AYES: Finlay, Martinez, Viegas-Walker, and Wilson (4).
NOES: None (0).
ABSTAIN: Morehouse, Wapner (2).

ACTION ITEMS

2. Fiscal Year (FY) 2015-16 External Audit Work Plan

Basil Panas, Chief Financial Officer, introduced Ms. Peggy McBride, Engagement Partner, and Ms. Linda Narciso, Audit Director, Vasquez & Company, LLC, (Vasquez) SCAG's outside independent auditors who presented the FY 2015-16 External Audit Work Plan. Ms. McBride described the audit planning process, the key areas of emphasis, risk assessment procedures for new programs and responsibilities. An explanation of the scope of audit services was presented by Ms. Linda Narciso, which included the following:

- Internal Control Evaluation and Testing;
- Preliminary Risk Assessment and Fraud Inquiries performed;
- Substantive Testing of Financial Audit Statements, Expenditure Reporting, Procurement Testing and Payroll and Pension Testing;
- Reporting on Compliance and Internal Controls Required by Generally Accepted Governmental Auditing Standards; Reporting on Schedule of Expenditure of Federal Awards and on Compliance and Internal Controls as required by The Single Audit;

Audit Committee
of the
Southern California Association of Governments

June 15, 2016

Minutes

- Review of Form 700 (Statement of Economic Interests) for Executive Management and Regional Council members;
- Review of the new financial reporting procedures for GASB Pronouncements that will be applicable to SCAG in future years.

Ms. Narciso discussed the proposed audit time-line stating that the year-end audit would begin on September 19, 2016, with the audit results and findings to be presented to the Audit Committee in November 2016. The final report would be submitted in December 2016.

As part of the discussion, staff clarified the procedures for reporting to the SCAG's Ethics Hotline.

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

A MOTION was made (Finlay) and SECONDED (Viegas-Walker) to approve the proposed Audit Work Plan. The motion was passed by the following vote:

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

(At 2:06 p.m., Hon. Cheryl-Viegas-Walker, excused herself from the meeting. It was also noted at this time that Hon. Michele Martinez was no longer in attendance via teleconference.)

3. Fiscal Year (FY) 2016-17 Internal Audit Work Plan

Richard Howard, Internal Auditor, provided a brief overview of the proposed Internal Audit Work Plan for FY 2016-17.

Due to the absence of a quorum, a motion to approve Agenda Item No. 3 was not made at that time by the Committee; and was postponed to the next Audit Committee meeting. Staff noted that if necessary, a Special Meeting may be convened to approve the Internal Audit Work Plan.

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

INFORMATION ITEMS

4. Implementation of Peer Review Recommendations

Richard Howard, Internal Auditor, provided an overview of the results of the Peer Review Recommendations. He introduced Mike Edmonds, Team Leader of the Association of Local Government Auditors (ALGA) Peer Review team to provide an opinion of the Internal Auditor's responses to the initial Peer Review report.

Mr. Edmonds reported on the six (6) observations, Management letter and recommendations that was issued by the ALGA Peer Review team back in November 2015, including the reporting relationship of the Internal Auditor. He stated that all six (6) observations had been satisfactorily

Audit Committee
of the
Southern California Association of Governments

June 15, 2016

Minutes

addressed. In regards to the Internal Auditor reporting relationship, it was noted that as of May 16, 2016, the Internal Auditor reported to the Executive Director of SCAG (instead of the Chief Financial Officer), and that this reporting relationship will continue until a new Chief Operating Officer (COO) is hired. At that point, the Internal Auditor will report to the new COO.

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

5. Shared Drives Report

Joshua Margraf, Assistant Internal Auditor, provided a brief overview and background information on the Internal Audit conducted on the data stored on SCAG's shared drives (a full report was included in the agenda packet). He noted that Internal Audit accessed files and folders on several Shared Drives and found files and folders that contained sensitive data and information.

After a thorough audit of the files and folders accessed on the M:drive and K:Drive, and after discussions with SCAG's Operation's staff, suggestions and recommendations to help mitigate the risk of sensitive information being compromised was made and are now in process of being implemented. In addition, it was noted that SCAG has been engaged to improve its records management and retention activities by creating a Records Manager position. SCAG anticipates filing the position within the next sixty (60) days.

6. Separated Employee Access to SCAG Systems

Joshua Margraf, Assistant Internal Auditor, provided a brief overview and background information of the Internal Audit conducted on SCAG systems that relates to the extent to which SCAG systems are accessible to employees following their separation from the agency. The review also included the processes for disabling separated employees access to SCAG systems, which include communication from Human Resources department to SCAG's IT service provider, Allied Digital.

The review identified several risks associated with the current employee termination process and recommendations for strengthening the procedures for terminating access to SCAG's systems.

Hon. Alan Wapner, Chair, inquired as to staff's role in providing IT support for disabling employee accounts. Catherine Kirschbaum, Chief Information Officer, explained that she is the only person authorized to manipulate employee accounts; however, the firm of Allied Digital is also contracted to do that work. She noted that SCAG staff will have a more active role in monitoring separated employees access, as well as downloading related reports.

Debbie Dillon, Deputy Executive Director, commented that the Human Resources department was in process of developing policies and procedures that include verification that separated employees' accounts are disabled within the prescribed time frames.

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

Audit Committee
of the
Southern California Association of Governments

June 15, 2016

Minutes

7. Payroll Review

Richard Howard, Internal Auditor, provided a brief overview of the Payroll Review audit. He noted that the review was part of the continuous audit program with the objective being to determine if each employee's current pay rate was in agreement with Human Resource (HR) files with no variances.

After completing the review, it was found that out of approximately 100 employees, only four (4) had minor discrepancies regarding their annual salaries as shown on their Personnel Action Forms (PAF). This had no effect on their pay amounts. Internal audit recommended that HR review the calculations for annual pay as shown on the PAF to ensure annual totals are correct.

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

8. Internal Audit Status Report

Richard Howard, Internal Auditor, provided a brief overview of the Internal Audit Status Report.

Staff responded to questions and comments provided by the Committee.

The Committee expressed their appreciation for the efforts of the Internal Auditing Department in performing meticulous audits and thorough staff reports.

9. Petty Cash Review

Richard Howard, Internal Auditor, provided a brief overview of the Petty Cash audit. He noted that there were no significant discrepancies or potential for risk found.

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

FUTURE AGENDA ITEMS

Internal Audit Work Plan

ANNOUNCEMENTS

There were no announcements made.

ADJOURNMENT

Hon. Alan Wapner, Chair, adjourned the meeting at 2:35 p.m. The next meeting of the Audit Committee will be determined at a later date.

Minutes Approved by:



Basil Panas, CFO
Staff to the Audit Committee

This Page Intentionally Left Blank

REPORT

DATE: August 16, 2016
TO: Audit Committee
FROM: Richard Howard, Internal Auditor, (213) 236-1905, howard@scag.ca.gov
SUBJECT: Internal Audit Work Plan

RECOMMENDED ACTION:

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

STRATEGIC PLAN:

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

BACKGROUND:

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

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

This Audit Work Plan was presented at the June 15, 2016 Audit Committee meeting but was not approved due to the lack of a quorum. We respectfully request that you now review the proposed Work Plan and approve it.

FISCAL IMPACT:

None.

ATTACHMENTS:

None.

This Page Intentionally Left Blank

REPORT

DATE: August 16, 2016
TO: Audit Committee
FROM: Richard Howard, Internal Auditor, (213) 236-1905, howard@scag.ca.gov
SUBJECT: Selection of External Auditor

RECOMMENDED ACTION:

The Audit Committee needs to select as least one of its members to serve on the Proposal Review Committee for the selection of an external auditor for Fiscal Year 2016-2017.

EXECUTIVE SUMMARY:

SCAG will need to select an external auditor to perform the fiscal year 2017 financial audit, including Single Audit Act requirements.

STRATEGIC PLAN:

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

BACKGROUND:

SCAG undergoes an annual external audit of its financial statements that includes a review of internal controls regarding compliance for major federal award programs administered by the agency (as per Single Audit Act requirements). Vasquez & Company, LLP is currently performing the audit for fiscal year 2016, which is the final year of a three year contract.

Due to the expiration of the contract with Vasquez & Company, SCAG needs to issue a Request for Proposal (RFP) to secure audit services for the fiscal year 2016-2017. SCAG has typically contracted with a firm for audit services for a period of three years.

As noted in SCAG's Audit Committee Charter, "the Audit Committee is directly responsible for the appointment, compensation, retention, and oversight of the work of any independent accountants engaged for the purpose of preparing or issuing independent audit reports or performing other independent audit, review or attest services for SCAG."¹ As such, the Audit Committee should review the RFP before it is finalized to ensure that its needs are addressed in the document. Also, at least one member of the Audit Committee should represent the committee's interests as part of the Proposal Review Committee (PRC) that reviews proposals submitted by firms.²

Internal Audit requests that at least one member of the Audit Committee be appointed to serve on the PRC.

FISCAL IMPACT:

None.

ATTACHMENTS:

None.

¹SCAG, *Audit Committee Charter (Amended)*, Jan. 5, 2012.

²See Section 7.4 of SCAG's *Procurement Policy & Procedures Manual* for a description of the PRC's roles and responsibilities. SCAG, *Procurement Policy & Procedures Manual*, Nov. 1, 2014.

This Page Intentionally Left Blank

REPORT

DATE: August 16, 2016
TO: Audit Committee
FROM: Richard Howard, Internal Auditor, (213) 236-1905, howard@scag.ca.gov
SUBJECT: Risk Assessment Input Form

RECOMMENDED ACTION:
For Information Only – No Action Required.

EXECUTIVE SUMMARY:
Internal Audit solicited input from SCAG’s executive and management team regarding key risk areas affecting the organization to inform its audit planning for fiscal year 2017 (FY17).

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

INTRODUCTION:
As part of its annual audit planning on how to maximize the use of audit resources, Internal Audit sent SCAG’s Audit Committee as well as the management team a risk assessment input form that highlighted key agency risk areas and requested that these risk areas be ranked by degree of risk (see Attachment I). Internal Audit also provided definitions of the risk areas (see Attachment II).

BACKGROUND:
Internal Audit developed a risk assessment input form that listed 12 areas of risk to be rated by SCAG’s Audit Committee as well as the executive team and management.¹ Respondents were asked to rate each risk areas as low, moderate, or high. The form also provided an opportunity for respondents to comment on any of the risk areas as well as identify other potential risks.

Upon receiving the responses, Internal Audit summarized the responses and ranked each risk area based on the ratings provided by the respondents.

RESULTS:
To allow Internal Audit to better rank the areas of risk, each response was given a weighted score—a rating of “low” was given a score of 1 while a rating of “moderate” received a score of 2 and “high” received a score of 3. Internal Audit summed the scores for each risk area and ranked them by total score overall. None of the respondents identified risks not already listed on the form. Table 1 shows the overall score for each risk area.

¹The areas of risk include: Business Continuity / Recovery Planning; Cash Management; Contract / Vendor Monitoring; Ethics; Financial Reporting; Form 700; Human Resources; Information Services / Technology; Procurement / Contracts; Project Management; Strategic Plan; Sub-recipient Monitoring.

REPORT

Table 1: Risk Areas – Total Points

Risk Area	Degree of Risk			Total Points
	High*	Moderate	Low	
Business Continuity / Recovery Planning	15	6	6	27
Cash Management	9	2	9	20
Contract / Vendor Monitoring	18	2	8	28
Ethics	6	12	7	25
Financial Reporting	12	2	10	24
Form 700	9	8	9	26
Human Resources	6	8	9	23
Information Services / Technology	18	8	6	32
Procurement / Contracts	12	2	10	24
Project Management	15	8	8	31
Strategic Plan	12	4	9	25
Sub-recipient Monitoring	12	12	4	28

*The scores already reflect the number of responses. Each response was multiplied by a weighted score.

High degree of risk = score of 3 (e.g. each response received multiplied by 3; 5 responses * 3 = 15 total).

Moderate degree of risk = score of 2.

Low degree of risk = score of 1.

The risk areas that received the highest scores are Information Services / Technology and Project Management. The other areas that score the highest are Business Continuity / Recovery Planning, Contract / Vendor Monitor, Form 700, and Sub-recipient monitor.

Table 2 shows the risk areas ranked—highest score to lowest.

Table 2: Risk Areas – Ranking

Risk Area	Ranking
Information Services / Technology	1
Project Management	2
Contract / Vendor Monitoring	3
Sub-recipient Monitoring	3
Business Continuity / Recovery Planning	4
Form 700	5
Ethics	6
Strategic Plan	6
Financial Reporting	7
Procurement / Contracts	7
Human Resources	8
Cash Management	9

Note: Ranking based on aggregate scores listed in Table 1.

SCAG has actions underway to help address some of the areas identified as having a high degree of risk. For instance, the CFO, CIO, and Information Technology (IT) staff have met with Internal Audit on an intermittent basis to discuss potential issues for audit, such as data security and access to sensitive information. Additionally, the CFO has been working with managers in SCAG’s Finance Department to develop project management training for all staff to help ensure project management functions are performed in a manner consistent with agency policies and procedures. Finally, Budget and Grants staff

REPORT

have developed a sub-recipient monitoring policies and procedures manual to assist staff in meeting federal audit requirements by providing a step-by-step guide for assessing sub-recipients.

Internal Audit will continue to work with management and staff to identify potential audit projects that can help address concerns associated with the high risk areas, in particular Information Services / Technology and Project Management.

FISCAL IMPACT:

None.

ATTACHMENTS:

Risk Assessment Input Form
Definitions of Risk Areas



RISK ASSESSMENT INPUT FORM
FISCAL YEAR 2016-2017

Name:	
Date:	

RISK AREAS	DEGREE OF RISK		
	High	Moderate	Low
Business Continuity / Recovery Planning			
Cash Management			
Contract / Vendor Monitoring			
Ethics			
Financial Reporting			
Form 700			
Human Resources			
Information Services / Technology			
Procurement / Contracts			
Project Management			
Strategic Plan			
Sub-recipient Monitoring			
Other (please indicate risk in comments section)			
Other (please indicate risk in comments section)			

COMMENTS:

PLEASE SAVE COMPLETED FORM and E-MAIL AS AN ATTACHMENT TO: howard@scag.ca.gov.

Richard Howard, Internal Auditor
Tel: 213.236.1905

The following list contains a brief description of each risk area that is listed on the *Risk Assessment Input Form*. Please refer to this list when completing the form.

BUSINESS CONTINUITY PLANNING/RECOVERY PLANNING

Plans for business continuity and/or recovery planning in the event of a disruption or disaster should exist, be reviewed for adequacy, and tested.

CASH MANAGEMENT

Review of collection, handling, disbursing, investing, and usage of cash.

CONTRACT/VENDOR MONITORING

Review contract invoices to provide assurance that costs billed are legitimate, allowable, and in accordance with contract terms. Monitor vendors to provide assurance they are in compliance with the contract and are paying any subconsultants. Check invoices to determine whether all required documentation is attached.

ETHICS

All SCAG employees must comply—at all times—with SCAG’s Ethics Policy. All employees must read and obtain an understanding of the policy. Violations must be dealt with according to the terms of the Ethics Policy. SCAG shall conduct its business with integrity in an honest and ethical manner. It is most important that employees perform their duties honestly and in accordance with the best interests of SCAG. Reviews and audits should be performed to provide assurance that this is happening.

FINANCIAL REPORTING

Review of financial reporting and budget reporting. Financial reporting refers to periodic, monthly, and/or annual reporting of activities of an entity according to Generally Accepted Accounting Principles (GAAP). Also includes budget reporting. Such reporting is necessary for compliance with laws and regulations and is also used by entities to make business decisions and/or obtain credit for purchases of goods or services or for general operating activities.

FORM 700

Review SCAG process for collecting and submitting Form 700s to provide assurance that the process is adequate and effective in complying with regulations. Every elected official and public employee who makes or influences governmental decisions is required to submit a Statement of Economic Interest, also known as the Form 700, which is to provide transparency and accountability in two ways: (1) providing information on officials’ personal finance interests so as to show officials’ decisions are in the best interest of the public rather than enhancing personal finances, and (2) serving as a reminder to officials of potential conflicts of interest so they can abstain from making or participating in governmental decisions that are deemed conflicts of interest.

HUMAN RESOURCES

Review of human resource practices, processes, and procedures to provide assurance that they are adequate and that SCAG is following applicable legal requirements, including equal opportunity practices to include hiring practices as well as privacy and security practices.

INFORMATION SERVICES/TECHNOLOGY

Reviews of SCAG systems and controls to provide assurance that SCAG is receiving the services it is paying for and that SCAG data are secure. Information Services/Technology refers to management of IT services and equipment as well as to the adequacy of security in the IT area.

PROCUREMENT/CONTRACTS

Review of SCAG procurement process. Procurement is the acquisition of goods or services from an external source. A procurement contract is an agreement in which a buyer agrees to acquire goods or services from a seller in exchange for consideration (money). The SCAG procurement process must follow federal and state guidelines while also being a fair and open process.

PROJECT MANAGEMENT

Audits and reviews of SCAG's project management processes and functions—the objectives of which are to ascertain the extent good business practices are used in and legal and ethical requirements are followed in carrying out SCAG projects. Project management refers to the management of projects in SCAG's Planning department.

STRATEGIC PLAN

A current Strategic Plan should exist and its provisions should be followed.

SUB-RECIPIENT MONITORING

A sub-recipient is an organization eligible to receive a financial award whose performance is measured against whether objectives of the sponsored program are met. A sub-recipient has responsibility for programmatic decision-making and for adherence to applicable program compliance responsibilities. Review SCAG's sub-recipient monitoring program to provide assurance that the program is effective at keeping SCAG and its sub-recipients in compliance with federal regulations.

REPORT

DATE: August 16, 2016
TO: Audit Committee
FROM: Richard Howard, Internal Auditor, (213) 236-1905, howard@scag.ca.gov
SUBJECT: Employee Travel Expenses Review

RECOMMENDED ACTION:

For Information Only-No Action Required.

EXECUTIVE SUMMARY:

Internal Audit reviewed employee travel expenses for fiscal year 2016, including documentation supporting expenses for employees with the largest amounts, and found that overall compliance was acceptable.

STRATEGIC PLAN:

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

INTRODUCTION:

SCAG spent over \$160,000 for employee travel expenses in Fiscal Year 2015-2016 (FY16). To determine whether expenses reimbursed were in compliance with agency policies and procedures¹ and there were any risks associated with employee travel expenses, Internal Audit reviewed employee travel expenses for FY 16.

SCOPE AND METHODOLOGY:

SCAG uses five accounts to capture employee travel expenses. The total for these five accounts for FY 16 is \$167,058. Internal Audit selected the top seven employees receiving expense reimbursements for detailed review. These seven total \$58,533, or 35% of the total expenses. The Executive Director had the highest total of expenses for the year. Internal Audit reviews the Executive Director's on a monthly basis and therefore did not include the Executive Director's expenses in its sample of employees with the highest travel expenses. At this time, Internal Audit reviewed in detail the expense reimbursements of the other six employees with the highest total of expenses.

Internal Audit did not perform an audit of SCAG's overall travel reimbursement process, the objectives of which would be to express an opinion of the effectiveness and efficiency of the overall process. Rather, the focus was on whether employee travel expenses were processed in compliance with established agency policies and procedures. Accordingly, Internal Audit does not express an opinion on the travel reimbursement process at this time.

¹See *Southern California Association of Governments Travel Policy*
(http://info/accounting/pdfs/AppendixC_TravelPolicyRev030116.pdf).

REPORT

APPLICABLE AUDIT STANDARDS:

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

BACKGROUND:

Employees are required to submit an approved Travel Authorization (TA) form to Accounting prior to any travel outside the SCAG region.² For travel within the SCAG region, employees do not require an approved travel authorization unless they intend to stay overnight. Employees are required to submit a completed travel re-imbursement form to Accounting, which includes supporting documentation, (e.g. receipts) in order to receive re-imbursement for travel-related expenses, such as mileage or lodging.³ A completed re-imbursement form also includes supervisory review and signature. Accounting reviews submitted re-imbursement forms and supporting documentation to determine the allowability of costs incurred.

RESULTS OF REVIEW:

For each of the six employees, Internal Audit reviewed their travel re-imbursement forms and supporting documentation submitted during FY16. Internal Audit found that the main area of noncompliance was related to hotel lodging costs that exceeded the per diem rates in SCAG's Travel Policy. SCAG uses a form called Permission to Exceed Lodging Rate to approve any hotel rates that exceed the rates in SCAG's Travel Policy or the Federal lodging rate. The Travel Policy requires that the form be approved prior to the cost being incurred. Internal Audit found nine instances of where the prior approval of lodging exceeding the per diem rates was not obtained. The other findings were very few and were not material. For example, several business meals did not show the purpose of the meeting.

Recommendations

We recommend that all Permission to Exceed Lodging Rate forms be approved prior to employees' hotel stays. We also recommend that all business meals conform to the Travel Policy regarding purpose and attendees.

FISCAL IMPACT:

None.

ATTACHMENTS:

None.

²See http://info/formbank/pdfs/TravelAuthorizationForm_April2016.pdf for a copy of SCAG's travel authorization form. The form is not required for travel outside SCAG's region if the sole expense incurred on the trip is only mileage or public transportation.

³See <http://info/formbank/pdfs/StaffTravelExpenseFormMay2016FS.pdf> for a copy of SCAG's travel re-imbursement form.

REPORT

DATE: August 16, 2016
TO: Audit Committee
FROM: Richard Howard, Internal Auditor, (213) 236-1905, howard@scag.ca.gov
SUBJECT: Internal Audit Status Report

RECOMMENDED ACTION:

For Information Only – No Action Required.

EXECUTIVE SUMMARY

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

STRATEGIC PLAN:

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

BACKGROUND:

Since the last Audit Committee meeting June 15, 2016, three (3) pre-award audits of contract proposals were completed.

The three consist of the following:

<u>Consultant</u>	<u>Proposal Amount</u>	<u>Questioned Costs</u>	<u>Questioned Costs Sustained</u>
Manhan Group	\$24,917	Rate Review	N/A
Alta	964,096	29,185	\$29,185
IBI Group	817,624	7,368	7,368
Totals	\$1,806,637	\$36,553	\$36,553

A travel expense review was performed for the year 2015-2016. A separate report on the review is included in today’s agenda.

A request for approval of a Work Plan for Internal Audit for the next fiscal year is included in today’s agenda. This item is carried over from the June 2016 meeting. It was not able to be acted on at that meeting.

FISCAL IMPACT:

None.

ATTACHMENTS:

None.