

REVISED LIST OF TELECONFERENCE LOCATIONS



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

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First Vice President
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San Bernardino

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Deborah Robertson, Rialto

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Tim Sandoval, Pomona

MEETING OF THE

AUDIT COMMITTEE

***Members of the Public are Welcome to Attend
In-Person & Remotely***

***Tuesday, December 12, 2023
2:00 p.m. – 3:30 p.m.***

To Attend In-Person:

**SCAG Main Office – Policy B Meeting Room
900 Wilshire Blvd., Ste. 1700
Los Angeles, CA 90017**

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**

PUBLIC ADVISORY

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 Attending the Meeting

To Attend In-Peron and Provide Verbal Comments: Go to the SCAG Main Office located at 900 Wilshire Blvd., Ste. 1700, Los Angeles, CA 90017 or any of the remote locations noticed in the agenda. The meeting will take place in the Policy B Meeting Room on the 17th floor starting at 3:00 p.m.

To Attend by Computer: Click the following link: <https://scag.zoom.us/j/316673359>. 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. Select “Join Audio via Computer.” 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.

To Attend by Phone: Call **(669) 900-6833** to access the conference room. Given high call volumes recently experienced by Zoom, please continue dialing until you connect successfully. Enter the **Meeting ID: 316 673 359**, followed by #. Indicate that you are a participant by pressing # to continue. You will hear audio of the meeting in progress. Remain on the line if the meeting has not yet started.

Instructions for Participating and Public Comments

Members of the public can participate in the meeting via written or verbal comments.

- 1. In Writing:** Written comments can be emailed to: ePublicComment@scag.ca.gov. Written comments received **by 5pm on Monday, December 11, 2023**, will be transmitted to members of the legislative body and posted on SCAG’s website prior to the meeting. 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. Written comments received after 5pm on Monday, December 11, 2023, will be announced and included as part of the official record of the meeting. Any writings or documents provided to a majority of this committee regarding any item on this agenda (other than writings legally exempt from public disclosure) are available at the Office of the Clerk, at 900 Wilshire Blvd., Suite 1700, Los Angeles, CA 90017 or by phone at (213) 630-1420, or email to aguilarm@scag.ca.gov.

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



2. **Remotely:** If participating in real time via Zoom or phone, please wait for the presiding officer to call the item for which you wish to speak and use the “raise hand” function on your computer or *9 by phone and wait for SCAG staff to announce your name/phone number.
3. **In-Person:** If participating in-person, you are invited but not required, to fill out and present a Public Comment Card to the Clerk of the Board or other SCAG staff prior to speaking. It is helpful to indicate whether you wish to speak during the Public Comment Period (Matters Not on the Agenda) and/or on an item listed on the agenda.

General Information for Public Comments

Verbal comments can be presented in real time during the meeting. Members of the public are allowed a total of 3 minutes for verbal comments. The presiding officer retains discretion to adjust time limits as necessary to ensure efficient and orderly conduct of the meeting, including equally reducing the time of all comments.

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.

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.

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AUDIT COMMITTEE MEETING AGENDA

****REVISED** TELECONFERENCE AVAILABLE AT THESE ADDITIONAL LOCATIONS**

| | |
|---|---|
| <p>Curt Hagman Chino Hills District Office 14010 City Center Drive Chino Hills, CA 91709</p> | <p>Steve Manos City of Lake Elsinore – City Hall 130 S Main Street Conference Room B Lake Elsinore, CA 92532</p> |
| <p>Ali Saleh City of Bell – City Hall 6330 Pine Avenue Bell, CA 90201</p> | <p>**Revised Address** Marty Simonoff 950 E. 27th Street Upstairs Office Signal Hill, CA 90755</p> |
| <p>Alan Wapner City of Ontario – City Hall 303 East B Street Conference Room 1 Ontario, CA 91764</p> | <p>Edward Wilson City of Signal Hill - City Hall 2175 Cherry Avenue Signal Hill, CA 90755</p> |

* Under the teleconferencing rules of the Brown Act, members of the body may remotely participate at any location specified above.



AC - Audit Committee **Members – December 2023**

- 1. Hon. Cindy Allen**
Long Beach, RC District 30, Chair
- 2. Sup. Curt Hagman**
San Bernardino County
- 3. Hon. Steve Manos**
Lake Elsinore, RC District 63
- 4. Hon. Ali Saleh**
Bell, RC District 27
- 5. Hon. Marty Simonoff**
Brea, RC District 22
- 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
900 Wilshire Boulevard, Suite 1700 – Policy B Meeting Room
Los Angeles, CA 90017
Tuesday, December 12, 2023
2:00 PM

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 Curt Hagman, 1st Vice-President)*

PUBLIC COMMENT PERIOD (Matters Not on the Agenda)

This is the time for public comments on any matter of interest within SCAG’s jurisdiction that is *not* listed on the agenda. For items listed on the agenda, public comments will be received when that item is considered. 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.

REVIEW AND PRIORITIZE AGENDA ITEMS

CONSENT CALENDAR

Approval Item

1. Minutes of the Meeting – July 10, 2023

PPG. 6

INFORMATION ITEMS

2. Eide Bailly Financial Statements Audit
(David James, Internal Auditor)

30 Mins.

PPG. 11

3. Internal Audit Report on REAP 1
(David James, Internal Auditor)

20 Mins.

PPG. 16

4. Internal Audit Report on SCAG’s Transit Reimbursements
(David James, Internal Auditor)

10 Mins.

PPG. 31

5. Internal Audit Status Report
(David James, Internal Auditor)

10 Mins.

PPG. 40

FUTURE AGENDA ITEMS

ANNOUNCEMENTS

ADJOURNMENT



Southern California Association of Governments
December 12, 2023

AUDIT COMMITTEE (AC)
MINUTES OF THE MEETING
MONDAY, JULY 10, 2023

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 both in person and virtually (telephonically and electronically). A quorum was present.

Members Present:

| | | |
|---|----------------------|-------------|
| Hon. Cindy Allen, Chair, 2nd Vice President | <i>Long Beach</i> | District 30 |
| Hon. Steve Manos | <i>Lake Elsinore</i> | District 63 |
| Hon. Ali Saleh | <i>Bell</i> | District 27 |
| Hon. Marty Simonoff | <i>Brea</i> | District 22 |

Members Not Present

| | | |
|---------------------|--------------------|----------------|
| Sup. Curt Hagman | | San Bernardino |
| Hon. Alan D. Wapner | | SBCTA |
| Hon. Edward Wilson | <i>Signal Hill</i> | GCCOG |

CALL TO ORDER AND PLEDGE OF ALLEGIANCE

The Honorable Cindy Allen, Long Beach, District 30, called the meeting to order at 10:34 a.m. She asked Councilmember Steve Manos, Lake Elsinore, District 63 to lead in the Pledge of Allegiance. The Clerk confirmed a quorum was present.

PUBLIC COMMENT PERIOD

Chair Allen 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](mailto:PublicComment@scag.ca.gov) after 5 p.m. on Friday, July 7, 2023, would be announced and included as part of the official record of the meeting.

Chair Allen opened the public comment period and noted 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 via email before or after the 5 p.m. deadline on Friday, July 7, 2023. SCAG staff also noted that there were no public comments for matters not listed on the agenda.

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

REVIEW AND PRIORITIZE AGENDA ITEMS

There were no reprioritizations made.

CONSENT CALENDAR

Approval Item

1. Minutes of the Meeting – February 22, 2023

A MOTION was made (Manos) and SECONDED (Simonoff) to approve the Consent Calendar, Item No. 1. The motion passed by the following roll call vote:

AYES: Allen, Manos and Simonoff (3)

NOES: None (0)

ABSTAIN: None (0)

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

INFORMATION ITEMS

2. Eide Bailly Audit of Annual Comprehensive Financial Report

David James, Internal Auditor, introduced Kinnaly Soukhaseum, Partner, and Shelley Goodrich, Senior Manager, Eide Bailly LLP, and asked them to present the details of the Auditor’s Required Communication in connection with SCAG’s fiscal year ended June 30, 2023 financial statements and financial audit process.

The presentation included an overview of the audit engagement timeline, the auditor's responsibilities, and details of the audit approach for the planning and risk assessment phase of the audit. Highlights of the audit presentation included the following:

- Audit on internal control over financial reporting and on compliance in accordance with Government Auditing Standards;
- Audit of the Annual Comprehensive Financial Report (ACFR);
- Audit on compliance requirements over major federal programs, schedule of expenditures of federal awards and internal controls in accordance with 2 CFR 200 (Single Audit);
- Testing of revenue recognition management and override of internal controls, and a review of GASB 96 standards;
- Final fieldwork and exit timeline to present in late November, 2023.

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

There were no public comments received for this item.

The comprehensive staff report, and PowerPoint presentation - SCAG Audit Planning Communications, were included in the agenda packet.

3. Audit Committee Charter and Responsibilities

David James, Internal Auditor, provided background information and a review of some of the key provisions of the Audit Committee Charter and responsibilities.

Mr. James provided an outline of seven key areas of responsibilities. Highlights included information related to the Committee's direct oversight of the work with SCAG's external auditors as they perform audit services for SCAG, and the Committee's responsibility as it relates to reviewing SCAG's financial statements and internal controls.

A full listing of the Committee's responsibilities is included in the Audit Committee Charter which was attached to the agenda packet.

Chair Allen commented favorably on the usefulness of the presentation and the discussion of Audit Committee responsibilities. There were no additional discussions or comments made on this item.

There were no public comments received for this item.

4. Internal Audit Status Report

David James, Internal Auditor, presented the Internal Audit Status Report, which lists work performed since the last Audit Committee meeting. Mr. James provided a brief update of the projects currently in progress. Highlights of the report included an update of the following projects:

- The completion of an internal audit draft report of REAP 1
- A progress update of the internal audit of transit reimbursements
- An update on SCAG's ethics hotline which had no reports since the last Audit Committee meeting.

There were no additional discussions made on this item.

There were no public comments received for this item.

The comprehensive staff report was included in the agenda packet.

FUTURE AGENDA ITEMS

There were no future agenda items.

ANNOUNCEMENTS

There were no announcements.

ADJOURNMENT

There being no further business, Chair Allen adjourned the Audit Committee meeting at 3:31 p.m.

Respectfully submitted by:

Carmen Summers

Audit Committee Clerk

[MINUTES ARE UNOFFICIAL UNTIL APPROVED BY THE AUDIT COMMITTEE]

//

AUDIT COMMITTEE ATTENDANCE REPORT

2023-24

| MEMBERS | Representing | JUL | AUG | SEP | OCT | NOV | DEC | JAN | FEB | MAR | APRIL | MAY | Total Mtgs Attended To Date |
|-----------------|-------------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|------------|------------------------------------|
| Allen, Cindy | Long Beach, District 30 | 1 | | | | | | | | | | | 1 |
| Hagman, Curt | San Bernardino County | | | | | | | | | | | | |
| Manos, Steve | Lake Elsinore, RC District 63 | 1 | | | | | | | | | | | 1 |
| Saleh, Ali | Bell, RC District 27 | 1 | | | | | | | | | | | 1 |
| Simonoff, Marty | Brea, RC District 22 | 1 | | | | | | | | | | | 1 |
| Wapner, Alan | SBCTA Representative | | | | | | | | | | | | |
| Wilson, Edward | Signal Hill, GCCOG | | | | | | | | | | | | |

Attachment: AC Attendance Sheet FY 2023-24 (Minutes of the July 10, 2023 Meeting)



AGENDA ITEM 2
REPORT

Southern California Association of Governments
December 12, 2023

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

EXECUTIVE DIRECTOR'S
APPROVAL

Kome Ajise

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:

Kinnaly Soukhaseum, partner at Eide Bailly, presents the results of the annual SCAG financial statements audit for the fiscal year ended June 30, 2023 and the Single Audit for the fiscal year ended June 30, 2023.

FISCAL IMPACT:

None.

ATTACHMENT(S):

1. PowerPoint Presentation - AU-C 260 Conclusion Presentation 2023 - SCAG



SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS

Independent Auditor's Communication to those Charged with Governance (AU-C 260) for the fiscal year ended June 30, 2023

December 12, 2023

AUDITOR'S REQUIRED COMMUNICATION (AU-C 260)

Our Responsibility in Relation to the Financial Statements under Government Auditing Standards (GAS)

- Consider internal control to the extent necessary to design an effective and efficient audit approach, not for the purpose of providing assurance on internal control.
- Design and implement audit procedures based on our understanding of Southern California Association of Governments (SCAG) to gain reasonable, not absolute, assurance as to the absence of material misstatements in the financial statements.
- Perform tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.
- GASB Statement No. 34 requires SCAG to present management's discussion and analysis and other required supplementary information in the financial statements.

AUDITOR'S REQUIRED COMMUNICATION (AU-C 260)

Significant Accounting Policies

- SCAG's significant accounting policies are described in Note 1 to the financial statements and are in accordance with generally accepted accounting principles and consistent with industry practices and standards. SCAG implemented GASB Statement No. 96, *Subscription Based Information Technology Arrangements*, effective July 1, 2022.

Management Judgments and Accounting Estimates

- Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's current judgments. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ from management's current judgments:
 - Net pension liability, net other post employment benefit (OPEB) liability and related deferred inflows of resources and deferred outflows of resources.

AUDITOR'S REQUIRED COMMUNICATION (AU-C 260)

Sensitive Disclosures

- Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users.
 - SCAG's disclosure of its pension and OPEB plan in Notes 11 and 13 to the financial statements describe SCAG's net pension liability and net OPEB liability. The valuation of the net pension liability and net OPEB liability and related deferred inflows/outflows of resources are sensitive to the underlying actuarial assumptions used including, but not limited to the investment rate of return and discount rate.

Corrected and Uncorrected Misstatements

- There were no uncorrected misstatements identified as a result of our audit procedures. We identified four (4) adjustments as part of the audit, which were brought to the attention of, and corrected by, management.

Difficulties Encountered in Performing the Audit or Disagreements with Management

- None noted.

Management Consultations with Other Independent Accountants

- None noted.

AUDIT AND ACCOUNTING STANDARDS

Future Year

Governmental Accounting Standards Board Pronouncements (Effective after June 30, 2023)

GOVERNMENTAL ACCOUNTING STANDARD NO. 99

- Omnibus 2022

GOVERNMENTAL ACCOUNTING STANDARD NO. 100

- Accounting Changes and Error Corrections

GOVERNMENTAL ACCOUNTING STANDARD NO. 101

- Compensated Absences

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 Eide Bailly representative, or to the presenter of this session.

THANK YOU

Kinnaly Soukhaseum, CPA
Partner
ksoukhaseum@eidebailly.com
909.466.4410

Shelley Goodrich, CPA
Senior Manager
sgoodrich@eidebailly.com
909.466.4410





AGENDA ITEM 3
REPORT

Southern California Association of Governments
December 12, 2023

To: Audit Committee (AC)
From: David James, Internal Auditor
(213) 630-1483, djames@scag.ca.gov
Subject: Internal Audit Report on REAP 1

EXECUTIVE DIRECTOR'S
APPROVAL

Kome Ajise

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:

- *Internal Audit has completed an audit report on REAP 1. SCAG management has reviewed the report and responded in writing to its recommendations. Management's response follows the report.*
- *SCAG staff generally followed SCAG's policies and procedures in administering the Regional Early Action Planning (REAP) 1 grant program. However, the audit found issues in total expenditures that SCAG reported to the California Department of Housing and Community Development (HCD), invoice payments made based on percentage of completion of projects, payment of fringe benefits, and approvals of invoices greater than \$200,000.*
- *The audit period covers REAP 1 activity from when program charges began on October 1, 2019 to June 30, 2023. This audit focuses on financial transactions and requirements for REAP 1.*

FISCAL IMPACT:

None.

ATTACHMENT(S):

1. Internal Audit REAP1 Report FINAL
2. Internal Audit REAP 1.0 - Management Response 11-06-23



**SCAG Internal Audit
Report on SCAG's
Regional Early Action Planning (REAP) 1
Grant Program**

November 17, 2023

By David James, CPA

Attachment: Internal Audit REAP1 Report FINAL (Internal Audit Report on REAP 1)

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Attachment: Internal Audit REAP1 Report FINAL (Internal Audit Report on REAP 1)

Executive Summary

Internal Audit found that SCAG staff generally followed SCAG's policies and procedures in administering the *Regional Early Action Planning (REAP) 1* grant program. However, the audit found issues in total expenditures that SCAG reported to the California Department of Housing and Community Development (HCD), invoice payments made based on percentage of completion of projects, payment of fringe benefits, and approvals of invoices greater than \$200,000. These issues are discussed in the *Observations and Recommendations* section beginning on page 8.

Audit Objectives and Scope

The primary objectives of this audit were to determine whether:

- SCAG's payments for REAP 1 projects comply with SCAG's policies and procedures
- SCAG is following requirements for REAP 1 by the California Department of Housing and Community Development (HCD) and the Local Government Planning Support Grants Program pursuant to Chapter 3.1 of Health and Safety Code (Sections 50515 to 50515.05)
- Invoices submitted by consultants and government agencies for REAP 1 are supported
- Invoices for REAP 1 are properly reviewed and approved.

The audit scope covers REAP 1 activity from when program charges began on October 1, 2019 to June 30, 2023. This audit focuses on financial transactions and requirements for REAP 1.

Audit Methodology

To achieve the audit objectives, Internal Audit performed the following:

- Reviewed SCAG policies and procedures relevant to REAP 1 and invoice payments
- Reviewed Chapter 3.1 of Health and Safety Code (Sections 50515 to 50515.05)
- Interviewed Planning and Accounting personnel and other staff involved in REAP 1 projects
- Obtained an understanding of internal controls and evaluated control design and effectiveness
- Reviewed a sample of invoice payments for REAP 1 projects for accuracy, support, and approvals
- Compared reported REAP 1 expenditures to HCD with accounting system records
- Verified approval by SCAG management of SCAG staff time charged for REAP 1 projects.

Internal Audit tested invoices for:

- Support of invoice charges, fringe benefit rates, and hourly rates
- Disallowances or adjustments to payment amounts
- Progress reports submitted with invoices including percentage of work completed
- Invoice funding allocation within total invoice amount
- Administrative charges are within the 5% limit allowed for REAP 1 projects
- Invoice expenditures are within budget
- Appropriate level of approval of REAP 1 invoices by SCAG project managers, section managers, contracts managers, Accounting staff, and executive management.

Background of Regional Early Action Planning (REAP) 1 Grant Program

REAP 1 allows councils of governments (COGs) and other regional entities to collaborate on projects that have regional impact on housing. Grant funding is intended to help regional entities and governments facilitate local housing production that will assist local governments in meeting their Regional Housing Need Allocation (RHNA). “Council of governments” is a single or multicounty council created by a joint powers agreement that is responsible for allocating regional housing need.

The REAP 1 program is made available as a portion of the Local Government Planning Support Grants Program pursuant to Chapter 3.1 of Health and Safety Code (Sections 50515 to 50515.05). The principal goal of this program is to make funding available to councils of governments and other regional entities for the preparation, adoption, and implementation of plans and processes that accelerate housing production and facilitate compliance in implementing the sixth cycle of RHNA.

RHNA is a state-mandated process that assigns the number of housing units each region needs to accommodate in its local communities. The sixth cycle of the RHNA refers to the specific round of allocation and planning requirements during a designated period, which is typically several years long. The REAP 1 program seeks to facilitate compliance with these requirements and stimulate housing production to address housing issues in the state.

By making funding available to councils of governments and regional entities, the program aims to support the development and implementation of plans and processes that expedite the production of housing units. This could include activities such as conducting feasibility studies, updating zoning regulations, streamlining permitting processes, and enhancing coordination between local jurisdictions. A goal is to remove barriers and create an environment that promotes housing construction, particularly in areas facing significant housing shortages or affordability challenges.

HCD was authorized to provide up to \$47,471,023 to SCAG under REAP 1. Based on SCAG’s Regional Council action on March 5, 2020, of the authorized full funding amount, up to \$23 million was allocated to fund subregional partnership projects for planning activities to accelerate housing production and facilitate compliance in implementing the sixth cycle of RHNA.

Senate Bill 197 extended the housing element rezoning deadline for certain jurisdictions. SCAG staff say that all subregional partnership program projects are on schedule to be completed by February 2024.

SCAG Planning staff and consultants manage the implementation of REAP 1 projects. SCAG staff established an on-call services bench of consultant contracts to streamline the project procurement process for REAP 1.

Allowable Uses of REAP 1 Funds

SCAG cannot award or disburse funds unless it determines that the REAP 1 funds will be expended in compliance with the terms and provisions of the Notice of Funding Opportunity (NOFA) for the REAP 1 program pursuant to Chapter 3.1 of Health and Safety Code (Sections 50515 to 50515.05). Grant funds can only be used by the subrecipient for project activities approved by SCAG that involve planning activities in accordance with the NOFA published by HCD. Grant funds cannot be used for administrative costs of persons employed by the subrecipient for activities not related to eligible activities. SCAG staff have worked in consultation with HCD staff regarding approval of projects for REAP 1.

According to SCAG's MOUs with councils of governments, any costs which the subrecipient receives reimbursement that is determined by a subsequent audit or other review by SCAG, HCD or other state authorities to be ineligible, are to be repaid by the subrecipient. Such repayment includes interest, penalties, or related fees, as determined by HCD or other state authorities. Should the subrecipient fail to reimburse unallowable costs due to SCAG, SCAG is authorized to withhold future payments to the subrecipient.

Fringe Benefits and Administrative Expenditures for REAP 1

Fringe Benefits are additional compensation to employees beyond their regular wages, such as health insurance, retirement plans, paid time off, and other benefits. SCAG paid several agencies' invoices that included fringe benefits expenses. The rates varied widely, and not all agencies included fringe benefits in their invoices. There was no mention of fringe benefits in their MOUs. Unless SCAG has agreed to a fringe benefits rate with an agency, there is a risk that SCAG pays invoices with unsupported charges. If these rates are not known at the time of the MOU agreement, it could affect project budgets when SCAG receives charges. If SCAG staff know from the MOU the fringe benefits rate, this will speed their review of invoices. (See Observation 3 on page 10.)

Allowed administrative expenditures for REAP 1 include staff costs for preparing invoices and supporting documentation, preparing quarterly and annual progress reports, and participating in project management meetings. For all invoices tested, this audit found that administrative charges are within the 5% maximum of total project costs allowed by HCD for REAP 1 expenditures. This audit also found that total administrative charges by SCAG staff for labor and other expenses on REAP 1 projects are within the 5% maximum.

REAP 1 Program Projects at SCAG

Regional Housing Needs Allocation (RHNA)

SCAG distributed a draft RHNA Allocation Plan based on adopted final RHNA methodology. SCAG conducted a RHNA appeals process through 47 public hearings. SCAG adopted and received HCD approval for the Sixth Cycle Final RHNA Allocation Plan. In the fourth quarter of fiscal year 2023, SCAG completed AB 101 RHNA Legislation Update and reported on best practices and lessons learned.

Subregional Partnership Program (SRP)

All SRP projects, which total over 80, are underway. Several projects were completed:

- City of Los Angeles: The Affirmatively Furthering Fair Housing and Assessment of Fair Housing Assessment and Safety Element Update
- County of Los Angeles: Housing Element Outreach
- San Bernardino Council of Governments (SBCOG): Site Inventory and Site Analysis Tool
- South Bay Cities Council of Governments (SBCCOG) SB 330 Supplemental Pre-application Form to Facilitate Replacement Housing
- Ventura County Council of Governments (VCOG) Regional Model Inclusionary Ordinance
- San Bernardino Council of Governments (SBCOG) Infrastructure Pilot Toolkit to provide a utility growth capacity plan for certain unincorporated areas to address housing element capacity issues.

Housing Policy Leadership Academy (HPLA)

The first HPLA session was in February 2022 for the eight subregional cohorts. Almost 200 stakeholders including planning commissioners, elected officials, non-profit leaders, and service providers completed the program by December 2022. The leadership academy program included four region-wide convenings on housing topics, and each forum had approximately 300 participants. In 2022, convenings were held in April, August, and November. A final forum was held in March 2023.

Regional Housing Policy Solutions

The Other-to-Residential Toolkit was completed in fiscal year 2022. The Housing Development Streamlining Project contract was executed, and the project began in fiscal year 2022. SCAG staff administered a survey, received responses, and prepared a recommendations report. For preservation of at-risk units, staff released an RFP and selected a consultant.

Sustainable Communities Strategy (SCS)

For Housing and Sustainable Development, SCAG staff selected 12 vendors using the RFP process. The 12 contracts and task orders were issued for 26 projects, one of which was cancelled, so the procurement process is complete. The projects were divided into three categories: (1) implementing accessory dwelling unit programs; (2) housing sustainability districts, workforce housing opportunity zones, and housing supportive tax increment financing districts; and (3) streamlining housing permitting, parking reduction strategies, housing-related specific plans, and other pro-housing policies. One of the accessory dwelling unit bundles was completed in December 2022.

For the LA Metro Partnership, consultants were procured, and all three Metro projects are underway. For Metrolink Transit Oriented Development Study, eight cities were selected in April 2023.

Invoice Payment Process for REAP 1

Consultants, partner agencies, and councils of governments send invoices which pertain to a contract or MOU to the designated accountant at SCAG. Accounting staff enter vendor payment information into MS Dynamics Great Plains (GP), SCAG's accounting system.

The assigned accountant is familiar with pertinent parts of the contract or MOU, such as: the line-item budget, direct labor rate, overhead rate, fringe benefit rate, subcontractors, other direct costs, travel, and fixed-fees.

Subcontractors have separate line-item budgets in all SCAG contracts. All subcontractors must follow the same requirements as the prime contractor.

The project manager, section manager, and lead accountant or controller approve the invoice. If the invoice is incomplete or not approved by the project manager, the invoice is not recorded in the accounting system.

Accountants manage the processing and validation of invoices to ensure accuracy and completeness. Accountants prepare a tracking sheet of the billing history since the start of the agreement, and a copy of this tracking sheet is filed with the invoice package. The project manager, accountant, and vendor

communicate by email to request approval and required documentation. The accountant reviews invoices to assess that the invoice complies with the contract or MOU terms and SCAG's procedures.

Accountants record contract or MOU information on the cover sheet such as the year-to-date invoiced amounts, the remaining balance, and progress reports. Each accountant keeps the cover sheet current.

When the invoice package is complete and approved by the project manager, section manager, lead accountant, and controller, the invoice is eligible for payment.

SCAG policy is that invoices between \$25,000 and \$50,000 require Deputy Finance Director approval. Invoices between \$50,000 and \$200,000 require Chief Financial Officer approval. Invoices over \$200,000 require Chief Operating Officer approval.

An accountant keeps the invoice with other open accounts payables until the next check cycle. At that time, a check is prepared for the payee. The controller reviews and approves all invoice packages and check registers. The controller approves ACH payments to vendors.

Observations and Recommendations

Observation 1: REAP 1 Expenditures Reported to California Department of Housing and Community Development (HCD)

Since the inception of REAP 1, every April SCAG staff have sent to HCD a report on the status of REAP 1 projects and the total REAP 1 expenditures as of December 31 of the previous calendar year.

In the Status of Activities section of the report to HCD dated March 31, 2023, SCAG reported \$20,291,687 cumulative amount expended as of December 31, 2022. However, SCAG's accounting system showed total expenditures for REAP 1 as of that date as \$22,118,807. This is a variance of \$1,827,120.

SCAG Accounting staff subsequently provided a reconciliation that completely accounts for the variance between the amounts reported to HCD in the March 31, 2023 report and the amounts reported in SCAG's accounting system. The variances were prepayment entries for consultants of \$641,700.00, additional consultant expenditures of \$47,029.02, additional administrative expenditures of \$575,260.72, and General Fund (Regional Housing Needs Assessment) expenditures from fiscal year 2020 of \$657,184.12. However, at the time of the March 31, 2023 report to HCD, it was unclear why there was a \$1.8 million variance. Therefore, Internal Audit agrees with management's response that Planning and Finance staff should closely coordinate when reporting REAP project expenditures to HCD.

Recommendation

SCAG Planning and Accounting staff should verify from their accounting system that all REAP 1 expenditures reported to HCD are correct and complete. SCAG staff should verify that all expenditures in SCAG's accounting system for REAP 1 are complete, correct, supported, documented, and approved by the appropriate level of SCAG staff.

Observation 2: Invoices Paid and the Percentage of Work Completed

For REAP 1 invoices paid by SCAG, this audit found several examples of the percentage of work completed on a project being less than the percentage of work invoiced and paid.

In general, staff should approve and pay invoices for work that has been completed. The percentage billed (paid) should not be materially greater than the percentage earned by the consultant or agency on a project. SCAG’s internal variance threshold is 0.5%. Over the course of a multi-year project, a variance in work invoiced versus work completed could lead to the consultant, council of governments, or government agency spending over budget at the end of the project.

MOUs with subrecipients require them to submit progress reports indicating percentage of completion with each set of invoices to allow SCAG’s project manager to determine if the subrecipient is performing to expectations, is on schedule, is within funding limitations, to communicate interim findings, and to afford occasions for airing difficulties respecting problems encountered so that remedies can be developed. This audit found that subrecipients are consistently submitting progress reports with invoices.

Below are invoice payments in which the percentage of the dollar amount invoiced was greater than 0.5% of the work performed. SCAG’s practice is to limit payments to 0.5% greater than the percentage of work completed or less. All of these invoices were approved by project managers and section managers, and paid by Accounting.

Note: these projects had revised total budget amounts, approved on a Scope of Approval Form (SAF). However, the variances were still greater than the 0.5% threshold.

| Transaction Date | Entity Name | Invoice Amount | % of Project Earned after Invoice | % of Project Invoiced | Variance | SAF Revised Total Project Funding | Earned to Date of Invoice | Billed to Date of Invoice | Variance |
|------------------|---|----------------|-----------------------------------|-----------------------|----------|-----------------------------------|---------------------------|---------------------------|--------------|
| 6/29/22 | County of Riverside Transportation and Land Management Agency | \$ 256,895 | 45.71% | 66.04% | 20.32% | \$ 756,000 | \$ 345,600 | \$ 499,248 | \$ (153,648) |
| 6/29/22 | County of Riverside Transportation and Land Management Agency | \$ 85,341 | 52.38% | 77.33% | 24.95% | \$ 756,000 | \$ 396,000 | \$ 584,588 | \$ (188,588) |
| 6/28/22 | Orange County Council of Governments | \$ 151,692 | 21.77% | 23.21% | 1.44% | \$ 3,577,551 | \$ 778,800 | \$ 830,232 | \$ (51,432) |
| 6/29/22 | Orange County Council of Governments | \$ 19,475 | 22.45% | 23.75% | 1.30% | \$ 3,577,551 | \$ 803,138 | \$ 849,707 | \$ (46,570) |
| 6/29/22 | Orange County Council of Governments | \$ 69,472 | 23.58% | 25.69% | 2.11% | \$ 3,577,551 | \$ 843,700 | \$ 919,179 | \$ (75,479) |
| 6/29/22 | Orange County Council of Governments | \$ 235,094 | 28.12% | 32.26% | 4.15% | \$ 3,577,551 | \$ 1,005,950 | \$ 1,154,273 | \$ (148,323) |
| 11/21/22 | Orange County Council of Governments | \$ 109,845 | 36.28% | 39.07% | 2.78% | \$ 3,577,551 | \$ 1,298,000 | \$ 1,397,589 | \$ (99,589) |
| 6/22/22 | Ventura Council of Governments | \$ 7,373 | 30.29% | 30.90% | 0.61% | \$ 453,600 | \$ 137,376 | \$ 140,148 | \$ (2,772) |
| 6/29/22 | Ventura Council of Governments | \$ 15,442 | 32.67% | 34.30% | 1.63% | \$ 453,600 | \$ 148,176 | \$ 155,590 | \$ (7,414) |

Recommendation

In approving invoices for payment, project managers and accounting staff should consistently check that the percentage of work invoiced is not materially greater than the percentage of work completed, i.e., the 0.5% threshold. If the SCAG project manager still approves an invoice with a variance for payment, then the project manager should include a written explanation for the approval that explains their decision to approve despite the difference between the percentage of work completed and the percentage of the cumulative dollar amount invoiced on a project.

Observation 3: Fringe Benefits Payments

SCAG paid fringe benefits to some agencies that included fringe benefits expenses in their invoices. The rates varied widely, and not all agencies included fringe benefits in their invoices. On the following page are listed agencies that invoiced fringe benefits, but fringe benefit rates were not in their MOUs.

Unless SCAG has agreed to a fringe benefits rate with an agency, there is a risk that SCAG pays invoices with unsupported charges. If these rates are not known at the time of the agreement, it could affect project budgets when SCAG receives charges. If SCAG staff know from the MOU the fringe benefits rates, this will speed their review of invoices.

Recommendation

In making MOUs with government agencies for grant projects, SCAG staff that prepare MOUs should ensure that percentage rates for fringe benefits are specified. When invoices are received from agencies, SCAG staff who approve invoices should verify the percentages and amounts charged for fringe benefits.

| Invoice Date | Name | Invoice \$ Amount | Fringe Benefits \$ Amount | Labor \$ Amount | Fringe Benefits Rate |
|--------------|---|-------------------|---------------------------|-----------------|----------------------|
| 10/1/2021 | Coachella Valley Association of Governments | \$ 1,757.86 | \$ 511.81 | \$ 1,131.41 | 45.24% |
| 11/1/2021 | Coachella Valley Association of Governments | \$ 2,507.48 | \$ 662.48 | \$ 1,464.47 | 45.24% |
| 2/1/2022 | Coachella Valley Association of Governments | \$ 6,058.85 | \$ 1,710.40 | \$ 3,780.72 | 45.24% |
| 5/2/2022 | Coachella Valley Association of Governments | \$ 280,094.07 | \$ 903.56 | \$ 1,997.25 | 45.24% |
| 8/4/2022 | Coachella Valley Association of Governments | \$ 47,520.55 | \$ 921.63 | \$ 2,037.20 | 45.24% |
| 11/1/2022 | Coachella Valley Association of Governments | \$ 33,331.43 | \$ 704.77 | \$ 1,557.86 | 45.24% |
| 2/1/2023 | Coachella Valley Association of Governments | \$ 34,160.74 | \$ 307.21 | \$ 697.07 | 44.07% |
| 5/1/2023 | Coachella Valley Association of Governments | \$ 52,031.47 | \$ 433.71 | \$ 958.68 | 45.24% |
| 5/1/2023 | Coachella Valley Association of Governments | \$ 68,952.36 | \$ 1,066.20 | \$ 2,356.76 | 45.24% |
| 12/13/2021 | County of Riverside Transportation and Land Management Agency | \$ 133,382.87 | \$ 6,351.03 | \$ 11,722.88 | 54.18% |
| 2/1/2022 | County of Riverside Transportation and Land Management Agency | \$ 108,970.61 | \$ 5,481.07 | \$ 12,212.46 | 44.88% |
| 6/13/2022 | County of Riverside Transportation and Land Management Agency | \$ 256,896.81 | \$ 7,593.16 | \$ 17,765.56 | 42.74% |
| 7/12/2022 | County of Riverside Transportation and Land Management Agency | \$ 85,341.95 | \$ 7,958.22 | \$ 22,927.24 | 34.71% |
| 11/7/2022 | County of Riverside Transportation and Land Management Agency | \$ 117,316.84 | \$ 3,559.68 | \$ 9,291.76 | 38.31% |
| 6/29/2021 | Gateway Cities COG | \$ 5,060.88 | \$ 20.88 | \$ 1,460.88 | 1.43% |
| 8/17/2021 | Gateway Cities COG | \$ 12,381.16 | \$ 1.16 | \$ 81.16 | 1.43% |
| 9/14/2021 | Gateway Cities COG | \$ 11,438.47 | \$ 12.76 | \$ 892.76 | 1.43% |
| 10/13/2021 | Gateway Cities COG | \$ 10,175.63 | \$ 8.12 | \$ 568.12 | 1.43% |
| 11/18/2021 | Gateway Cities COG | \$ 1,960.63 | \$ 19.14 | \$ 1,339.14 | 1.43% |
| 12/17/2021 | Gateway Cities COG | \$ 1,514.25 | \$ 12.76 | \$ 892.76 | 1.43% |
| 1/19/2022 | Gateway Cities COG | \$ 4,896.13 | \$ 46.40 | \$ 3,246.40 | 1.43% |
| 2/17/2022 | Gateway Cities COG | \$ 4,287.74 | \$ 32.48 | \$ 2,272.48 | 1.43% |
| 3/17/2022 | Gateway Cities COG | \$ 4,598.64 | \$ 32.48 | \$ 2,276.48 | 1.43% |
| 4/11/2022 | Gateway Cities COG | \$ 12,095.91 | \$ 1.16 | \$ 81.16 | 1.43% |
| 9/19/2022 | Gateway Cities COG | \$ 42,909.80 | \$ 22.04 | \$ 1,542.04 | 1.43% |
| 10/25/2022 | Gateway Cities COG | \$ 35,348.64 | \$ 17.40 | \$ 1,217.40 | 1.43% |
| 11/18/2022 | Gateway Cities COG | \$ 67,499.13 | \$ 23.20 | \$ 1,623.20 | 1.43% |
| 12/19/2022 | Gateway Cities COG | \$ 87,508.79 | \$ 19.72 | \$ 1,379.72 | 1.43% |
| 1/19/2023 | Gateway Cities COG | \$ 41,668.64 | \$ 30.16 | \$ 2,110.16 | 1.43% |
| 2/21/2023 | Gateway Cities COG | \$ 17,055.28 | \$ 48.72 | \$ 3,408.72 | 1.43% |
| 3/20/2023 | Gateway Cities COG | \$ 66,049.32 | \$ 79.22 | \$ 5,542.66 | 1.43% |
| 4/20/2023 | Gateway Cities COG | \$ 80,123.04 | \$ 99.76 | \$ 6,979.76 | 1.43% |
| 5/8/2023 | Gateway Cities COG | \$ 99,619.40 | \$ 52.20 | \$ 3,652.20 | 1.43% |
| 6/8/2023 | Gateway Cities COG | \$ 37,025.86 | \$ 60.90 | \$ 4,260.90 | 1.43% |
| 7/19/2023 | Gateway Cities COG | \$ 82,406.50 | \$ 73.08 | \$ 5,113.08 | 1.43% |
| 11/15/2021 | San Gabriel Valley COG | \$ 3,018.61 | \$ 1,154.95 | \$ 1,863.66 | 61.97% |
| 12/15/2021 | San Gabriel Valley COG | \$ 1,453.21 | \$ 428.63 | \$ 1,024.38 | 41.84% |
| 1/21/2022 | San Gabriel Valley COG | \$ 2,695.77 | \$ 291.13 | \$ 2,404.64 | 12.11% |
| 3/3/2022 | San Gabriel Valley COG | \$ 3,173.06 | \$ 717.47 | \$ 1,642.73 | 43.68% |
| 3/16/2022 | San Gabriel Valley COG | \$ 2,785.65 | \$ 629.89 | \$ 1,953.37 | 32.25% |
| 4/18/2022 | San Gabriel Valley COG | \$ 8,957.35 | \$ 867.05 | \$ 2,967.50 | 29.22% |
| 5/11/2022 | San Gabriel Valley COG | \$ 4,995.56 | \$ 342.82 | \$ 1,173.27 | 29.22% |
| 6/15/2022 | San Gabriel Valley COG | \$ 34,390.14 | \$ 381.42 | \$ 1,305.41 | 29.22% |
| 6/19/2022 | San Gabriel Valley COG | \$ 98,642.42 | \$ 464.83 | \$ 1,590.85 | 29.22% |
| 8/18/2022 | San Gabriel Valley COG | \$ 7,561.49 | \$ 1,244.99 | \$ 5,157.50 | 24.14% |
| 9/15/2022 | San Gabriel Valley COG | \$ 48,240.78 | \$ 1,332.97 | \$ 6,172.11 | 21.60% |
| 10/18/2022 | San Gabriel Valley COG | \$ 29,206.33 | \$ 1,420.54 | \$ 5,884.70 | 24.14% |
| 12/22/2022 | San Gabriel Valley COG | \$ 46,830.33 | \$ 2,153.56 | \$ 8,921.27 | 24.14% |
| 1/23/2023 | San Gabriel Valley COG | \$ 15,675.90 | \$ 1,234.15 | \$ 5,112.48 | 24.14% |
| 2/22/2023 | San Gabriel Valley COG | \$ 97,374.33 | \$ 1,452.14 | \$ 6,015.58 | 24.14% |
| 2/22/2023 | San Gabriel Valley COG | \$ 8,540.58 | \$ 1,557.36 | \$ 6,451.37 | 24.14% |
| 4/7/2023 | San Gabriel Valley COG | \$ 5,972.65 | \$ 1,065.15 | \$ 4,412.42 | 24.14% |
| 5/16/2023 | San Gabriel Valley COG | \$ 189,509.62 | \$ 900.20 | \$ 3,729.13 | 24.14% |
| 6/22/2023 | San Gabriel Valley COG | \$ 164,193.09 | \$ 1,000.94 | \$ 4,146.38 | 24.14% |
| 6/22/2022 | South Bay Cities COG | \$ 16,682.05 | \$ 2,080.17 | \$ 9,905.55 | 21.00% |
| 6/27/2022 | South Bay Cities COG | \$ 31,279.93 | \$ 112.46 | \$ 535.52 | 21.00% |
| 6/28/2022 | South Bay Cities COG | \$ 24,239.52 | \$ 1,749.26 | \$ 8,239.80 | 21.23% |
| 10/26/2022 | South Bay Cities COG | \$ 91,601.41 | \$ 1,327.02 | \$ 6,319.14 | 21.00% |
| 2/28/2023 | South Bay Cities COG | \$ 63,386.46 | \$ 1,523.76 | \$ 7,255.98 | 21.00% |
| | | Total: | \$ 64,311.53 | | |

Observation 4: Invoices over \$200,000 Require Chief Operating Officer Approval

According to SCAG policy, invoices over \$200,000 require Chief Operating Officer (COO) approval. The SCAG executive team approved a revised Signatory Approval Policy on August 17, 2021 that required COO approval for invoices \$200,000 or greater.

SCAG Accounting staff email the COO for approvals. The accountant processing the invoice must observe that the dollar amount of the invoice is over the \$200,000 threshold and email the request for approval. The accountant must also track that approvals are received and filed.

In the audit sample, there are 12 invoices greater than \$200,000. This audit found five of these invoices that did not have COO approval, including a \$1,000,000 prepayment to the California Community Foundation. However, only two of these invoices were paid after the revised Signatory Approval Policy took effect:

| Payment Date | Name | Invoice \$ Amount |
|--------------|---|-------------------|
| 6/16/2022 | CITY OF LOS ANGELES DEPT OF CITY PLANNING | \$ 370,528.66 |
| 6/16/2022 | CITY OF LOS ANGELES DEPT OF CITY PLANNING | \$ 285,495.14 |

Recommendation

For invoices greater than \$200,000, SCAG Accounting staff should consistently obtain and retain documentation of Chief Operating Officer approval as well as other required levels of approval. SCAG Accounting should keep documentation of the approval in the invoice tracking sheet with the invoice package, noting that the appropriate level of approval was obtained for the invoice.

Management Response to Internal Audit Report on REAP 1.0

| Item | Item Description | IA Recommendation | Management Response | Status |
|---|---|--|---|--------------------|
| <p>Observation 1: REAP 1 Expenditures Reported to California Department of Housing and Community Development (HCD)</p> | <p>In the Status of Activities section of the report to HCD dated March 31, 2023, SCAG reported \$20,291,687 cumulative amount expended as of December 31, 2022. However, SCAG’s accounting system showed total expenditures for REAP 1 as of that date as \$22,118,807. This is a variance of \$1,827,120.</p> | <p>SCAG staff should verify from its accounting system that all REAP 1 expenditures reported to HCD are correct and complete. SCAG staff should verify that all expenditures in SCAG’s accounting system for REAP 1 are complete, correct, supported, documented, and approved by the appropriate level of SCAG staff.</p> | <p>The variance of \$1,827,120 is due to a discrepancy between the Project Detail Expenditure Report used by Planning staff for the annual report to HCD and the Consolidated Planning Report used by Finance staff to prepare the invoice report for REAP 1.0 expenditures. It appears the Project Detail Expenditure Report does not include journal entries for expenses processed under miscellaneous logs for items originally posted to the General Fund and then moved to the REAP fund and prepaids.</p> <p>The amount of \$22,118,807 in SCAG's accounting system is the correct amount of REAP 1.0 expenditures as of December 31, 2022 and it is the amount billed to HCD for reimbursement of expenditures.</p> <p>Finance and Planning staff will coordinate to ensure that future reporting and invoicing to HCD is consistent and complete.</p> | <p>In progress</p> |
| <p>Observation 2: Invoices Paid and the Percentage of Work Completed</p> | <p>For REAP 1 invoices paid by SCAG, this audit found several examples of the percentage of work completed on a project being less than the percentage of work invoiced and paid.</p> | <p>In approving invoices for payment, project managers and accounting staff should consistently check that the percentage of work invoiced is not materially greater than the percentage of work completed, i.e., the 0.5% threshold. If the SCAG project manager still approves an invoice with a variance for payment, then the project manager should include a written explanation for the approval that explains their decision to approve despite the difference between the percentage of work completed and the percentage of the dollar amount invoiced on a project.</p> | <p>The REAP 1.0 Subregional Partnership Program utilized a Scope of Complete Work Approval Form (SAF) to make changes to the funding allocations between projects, changes in scope for individual projects, and other changes that don’t result in a net change to the funding award. For the invoices listed under Observation 2, the SAF forms were in the process of amendment to allocate more funds to the projects referenced. This resulted in the appearance of a variance, but when considered in relationship to the revised SAF allocations, remained within the 0.5% threshold required.</p> <p>In order to ensure that clarity around this timing issue is properly documented in the invoice files, SCAG project managers will include an explanation in the file as to the reason for the approved variance along with their email approval of the invoice.</p> | <p>Complete</p> |

| | | | |
|---|---|--|--|
| <p>Observation 3: Fringe Benefits and Overhead Payments</p> | <p>In the invoices from council of governments, this audit found several instances of fringe benefits and/or overhead paid by SCAG. The rates varied widely. Council of governments charged fringe benefit or overhead rates but there was no mention of these charges in their MOUs.</p> <p>Unless SCAG has agreed to a fringe or overhead rate with a council of government, there is a risk that SCAG pays invoices with unsupported charges. If these rates are not known at the time of the agreement, it could affect project budgets when SCAG receives charges. If SCAG staff know from the agreement the fringe and overhead rates, this will speed their review of invoices.</p> | <p>In making agreements with consultants and Council of Governments for grant projects, SCAG staff should ensure that percentage rates for fringe benefits and overhead are specified. When invoices are received from consultants and Council of Governments, SCAG staff who approve invoices should verify the percentages and amounts charged for fringe benefits and overhead, and recalculate the amounts if necessary.</p> | <p>For the REAP 1.0 MOUs listed under Observation 3, fringe benefit rates and overhead/indirect rates were not reviewed prior to finalizing the MOUs because it was not known at that time if the subrecipients had approved fringe benefit rates and overhead/indirect rates. Finance staff reviewed each of the MOU invoices listed under Observation 3 and found that they included fringe benefits. In regard to the CVAG invoices, we believe the 45.24% rate is for fringe benefits not overhead. Planning staff is requesting documentation from the COGs to support their fringe benefit rates, and when the information is received, we will provide an update to this item.</p> <p>For future MOUs, Budget & Grants and Planning will document a process for SCAG project managers to review fringe benefits and overhead/indirect rates during the subrecipient risk assessment process prior to the MOU execution. SCAG project managers will request documentation from subrecipients to support annual updates to fringe benefits and overhead/indirect rates. When reviewing invoices, Accounting staff will verify the rates are consistent with the approved fringe benefits and overhead/indirect rates on file, and will communicate any issues to project managers.</p> <p>For consultant contracts, the Contract Administrator ensures documentation to support fringe benefits and overhead/indirect rates is collected during the contract negotiation process.</p> |
| <p>Observation 4: Invoices over \$200,000 Require Chief Operating Officer Approval</p> | <p>According to SCAG policy, invoices over \$200,000 require Chief Operating Officer (COO) approval. The SCAG executive team approved a revised Signatory Approval Policy on August 17, 2021 that required COO approval for invoices \$200,000 or greater.</p> <p>SCAG Accounting staff email the COO for approvals. The accountant processing the invoice must observe that the dollar amount of the invoice is over the \$200,000 threshold and email the request for approval. The accountant must also track that approvals are received and filed.</p> <p>In our audit sample, there are 12 invoices greater than \$200,000. This audit found five of these invoices that did not have COO approval, including a \$1,000,000 prepayment to the California Community Foundation. However, only two of these invoices were paid after the revised Signatory Approval Policy took effect.</p> | <p>For invoices greater than \$200,000, SCAG Accounting staff should consistently obtain and retain documentation of Chief Operating Officer approval as well as other required levels of approval. SCAG Accounting should keep documentation of the approval in the invoice tracking sheet with the invoice package, noting that the appropriate level of approval was obtained for the invoice.</p> | <p>Management agrees with the recommendation. To ensure all approvals are received and filed accordingly, a separate Accounting staff member will review the files after the payments are processed.</p> |



AGENDA ITEM 4
REPORT

Southern California Association of Governments
December 12, 2023

To: Audit Committee (AC)

**EXECUTIVE DIRECTOR'S
APPROVAL**

From: David James, Internal Auditor
(213) 630-1483, djames@scag.ca.gov

Subject: Internal Audit Report on SCAG's Transit Reimbursements

RECOMMENDED ACTION:

For Information Only – No Action Required

STRATEGIC PLAN:

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

EXECUTIVE SUMMARY:

- *Internal Audit has completed an audit report on SCAG's Transit Reimbursements for Employees. SCAG management has reviewed the report and responded in writing to its recommendations. Management's response follows the report.*
- *SCAG staff followed SCAG's policies and procedures in transit reimbursements for employees. This audit did not find significant material issues with transit reimbursement for employees at SCAG. However, this audit report has one recommendation on transit parking reimbursement and one observation about two transit reimbursement request forms that were not paid when submitted.*
- *The audit period covers reimbursements from March 2022 to April 2023.*

FISCAL IMPACT:

None.

ATTACHMENT(S):

1. Internal Audit Transit Report FINAL
2. Internal Audit Transit reimbursements - Management Response 11-06-23



SCAG Internal Audit
Report on
SCAG's Transit Reimbursements for Employees

September 21, 2023

By David James, CPA

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Executive Summary

Internal Audit found that SCAG staff generally followed SCAG’s policies and procedures in transit reimbursements for employees. This audit did not find significant material issues with transit reimbursement for employees at SCAG. However, this audit report has one recommendation on transit parking reimbursement and one observation about two transit reimbursement request forms that were not paid when submitted. See the *Observations and Recommendations* section on page 7.

Audit Objectives and Scope

The primary objectives of this audit were to determine:

- Whether transit reimbursement at SCAG is following SCAG policies and procedures
- How staff reimbursements for expenses are processed
- Whether reimbursement requests are properly documented and reviewed
- Whether payment amounts to staff are correct.

The audit scope covers reimbursements from March 2022 to April 2023.

Audit Methodology

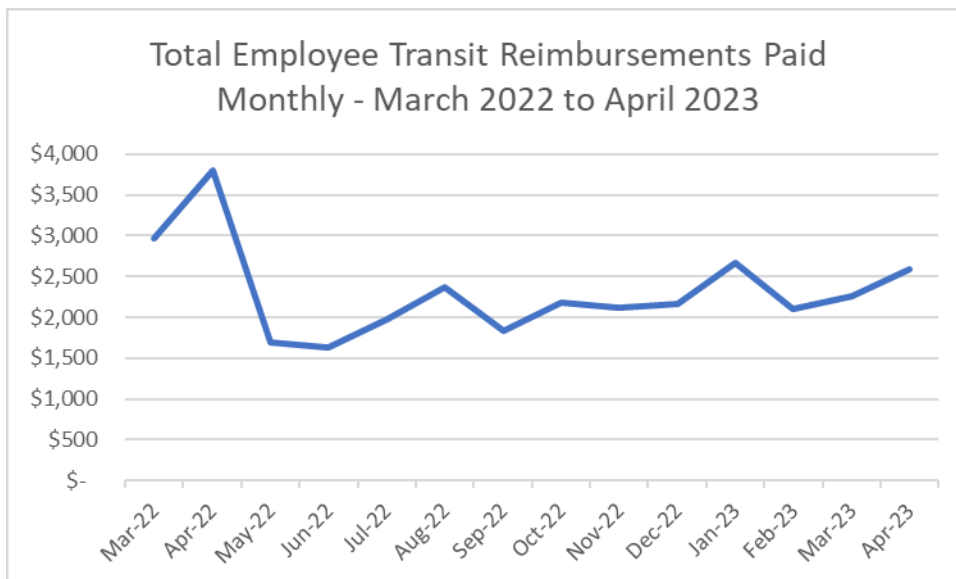
To achieve the audit objectives, Internal Audit performed the following:

- Reviewed SCAG policies and procedures relevant to SCAG transit reimbursement
- Interviewed Accounting personnel who perform the transit reimbursement process
- Obtained an understanding of internal controls and evaluated control design and effectiveness
- Tested a sample of employee transit reimbursement forms for accuracy of dollar amounts and supporting receipts
- Compared accounting system reported employee transit payments to reimbursements on employee paystubs.

Background

SCAG currently has about 231 employees. The percentage of employees getting monthly transit reimbursements is about 19%. An average of 45 staff receive an average of \$51.73 per month for transit reimbursement. SCAG’s average total monthly transit reimbursement is \$2,312.92.

| Total Employee Transit Reimbursements Monthly | | |
|--|--|-----------------------|
| March 2022 to April 2023 | | |
| Month | # of Employees Receiving Reimbursements | \$ Amount Paid |
| Mar-22 | 51 | \$ 2,972.84 |
| Apr-22 | 61 | \$ 3,794.98 |
| May-22 | 32 | \$ 1,696.50 |
| Jun-22 | 38 | \$ 1,636.25 |
| Jul-22 | 42 | \$ 1,972.77 |
| Aug-22 | 45 | \$ 2,372.00 |
| Sep-22 | 38 | \$ 1,842.25 |
| Oct-22 | 47 | \$ 2,186.50 |
| Nov-22 | 38 | \$ 2,116.00 |
| Dec-22 | 44 | \$ 2,168.25 |
| Jan-23 | 52 | \$ 2,670.25 |
| Feb-23 | 42 | \$ 2,104.25 |
| Mar-23 | 46 | \$ 2,254.55 |
| Apr-23 | 50 | \$ 2,593.45 |
| Total | 626 | \$ 32,380.84 |
| Average Monthly | 45 | \$ 2,312.92 |
| Average Monthly Reimbursement per Employee | | \$ 51.73 |



SCAG Policy on Employee Transit Reimbursement

Pursuant to *Work@SCAG Policy 7.1 Transit Reimbursement Program*, all SCAG regular, limited-term, probationary, at-will, intern, and temporary employees are eligible to receive commute bus/rail/train pass reimbursement. SCAG fellows, volunteers, contracted, and agency workers are not eligible for reimbursement.

Each employee who elects to participate in the program must purchase their own bus/rail/train pass and station parking and request reimbursement on the required form. Receipts or proof of purchase are required, and all receipts must be dated in the month of the reimbursement request. Staff submit one reimbursement request per month.

Monthly eligible transit expenses are for Metrolink, Metro, bus passes, and parking at train stations. Up to \$230 is reimbursed for a monthly transit pass with minimum monthly work-travel usage of eight days. Staff must include receipts for reimbursement to self-certify these expenses are work-related.

Monthly Metrolink passes are excluded from the required ride transaction history, but SCAG staff must commute a minimum of eight days within the month. If the employee purchased a monthly pass but did not commute at least eight days, then the employee is only eligible to receive reimbursement for the daily cost of public transit. Single-day and multi-day pass Metrolink commuters are required to submit dates for their commute on the reimbursement form.

For Metro passes, employees are eligible to receive reimbursement for the total daily transactions used in a month and not the cash value stored on the card. Ride transaction history is required for loaded credit and Metro TAP card users. Staff can connect their TAP card to email or phone to retrieve this information. Staff must include the total days in office, dates in office, ride history transactions, and proof of receipts/bank statements.

On January 1, 2023, the following changes to SCAG's transit reimbursement policy came into effect: Employees requesting reimbursement for a monthly pass must commute a minimum of eight times within the month. Commute days must be noted on the transit reimbursement form. Ride transaction history is required for loaded credit and Metro TAP card users. Multi-day or single-day pass Metrolink commuters must submit commute dates. This audit found several instances in which employees purchased a TAP card without using the full value of the card in the month purchased, but all these instances occurred prior to the policy taking effect on January 1, 2023.

Process for Employee Transit Reimbursement

Employees email monthly the EmployeeExpenses@scag.ca.gov email address with their attached transit reimbursement form and receipts. Accounting allows employees up to the end of the following month to submit monthly transit expenses on the Transit Reimbursement Form.

The Finance Associate reviews completed forms for accuracy. The Payroll Administrator randomly checks some receipts. If she finds issues, she sends the forms back to the Finance Associate to correct. Sometimes an employee puts the wrong amount on the form, or an employee adds up their receipts incorrectly. Both the Finance Associate and Payroll Administrator have made corrections to submitted transit reimbursement forms.

Accounting staff use the Robin app, in which employees self-report daily when they will be working in the office, to check against transit days submitted.

The Finance Associate does the transit reimbursement process once per month. The Finance Associate updates a tracking spreadsheet with a list of transit reimbursements by employee per month. He sends the spreadsheet with transit records for the month to the Payroll Administrator.

In the second pay period of each month, the Payroll Administrator enters the transit reimbursement information in the payroll system for payment. Accounting staff maintain a folder with copies of all reimbursement requests with all receipts.

The Payroll Administrator runs a report for pending transactions to process the payroll to check the correct amount of payment is going to the appropriate employee. She reconciles the payroll system report with the spreadsheet the Finance Associate provided. When the Payroll Administrator runs full payroll, the transit reimbursement amounts are included with employee paychecks.

Internal Controls

In general, internal controls around the transit reimbursement for employees process appear sufficient. SCAG has controls around the submission of receipts, and review of forms and receipts by two Accounting staff.

Risk of Fraud

The risk of fraud is low. Materiality is low with an average total monthly expense of \$2,312.92. The maximum monthly reimbursement per employee is \$230. Staff must submit receipts for each monthly submission.

Observations and Recommendations

Observation 1: Monthly Parking Passes

Staff have submitted for reimbursement monthly parking passes at train stations when they only parked a few days per month.

Recommendation

Like minimum daily requirements for monthly Metrolink passes, monthly parking passes at train stations should have a minimum number of days used monthly. SCAG Accounting staff should verify for monthly parking passes submitted for reimbursement that the employee meets a minimum number of days per month requirement (e.g., eight days per month).

Observation 2: Transit Reimbursement Requests Not Paid When Submitted

This audit found two instances of reimbursement forms not paid when submitted, and one immaterial variance in payment amount. One reimbursement request was paid in a later period after Internal Audit inquired about the request.

Recommendation

Accounting staff should ensure that all reimbursement forms received are filed, tracked, and paid timely.

Management Response to Internal Audit Report on REAP 1.0

| Item | Item Description | IA Recommendation | Management Response | Status |
|--|---|---|--|-----------|
| Observation 1: Monthly parking passes | Staff submitted for reimbursement of monthly parking passes at train stations when they only parked a few days per month. | Monthly parking passes at train stations should have a minimum number of days used monthly similar to the monthly metrolink passes. | Starting January 1, 2023, staff were instructed to do their best to choose the lowest-cost ticketing option. Only one individual purchased the monthly parking pass which for the month audited cost the agency \$2 more than the daily passes. Staff has been reminded to buy the cheapest option. Since very few stations charge for parking and the rates vary, it may not be worthwhile to stipulate a minimum number of days for parking. The costs for tracking and verifying will be greater than the cost savings. Staff will monitor the usage of monthly parking passes and may implement additional tracking procedures, if determined to be prudent. | Completed |
| Observation 2: Transit reimbursement requests not paid when submitted | Two instances were found that reimbursement was requested and not processed and one payment was processed for the incorrect amount (variance was \$0.50). | Accounting staff should ensure that all reimbursement forms received are filed, tracked, and paid timely. | Transit reimbursements will be reviewed by Principal Accountant to verify control totals and ensure all transit reimbursement request are processed accurately and timely. In addition once payment is processed, the payment amount will be verified with the control totals to identify if any mistakes were made. | Completed |



AGENDA ITEM 5
REPORT

Southern California Association of Governments
December 12, 2023

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

Kome Ajise

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 SCAG Ethics Hotline received one report*
- *Upcoming Internal Audit projects.*

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. SCAG Ethics Hotline Update

Since the last Audit Committee meeting, one report was entered on the SCAG Ethics Hotline. The report was received on October 3, 2023. In the report, an attorney with the Fair Political Practices Commission (FPPC) Enforcement Division informed SCAG that she received a referral regarding missing Statement of Economic Interests (SEI) Form 700 for a SCAG member. She asked if the member filed all applicable annual SEIs with SCAG. She requested that SCAG send her a copy of those SEIs.

Internal Audit confirmed that the Board member did file annual SEIs with SCAG for several years up to the present, and SCAG has those forms on file. Internal Audit conferred with SCAG Acting Chief Counsel Jeffery Elder on this request. Internal Audit informed Chief Operating Officer Darin Chidsey about the hotline report.

Internal Audit contacted the member and informed him about the information request. The member told Internal Audit that he had consistently filed the required SEIs through SCAG and the agency he represented.

Internal Audit informed FPPC that the member has filed all applicable annual SEIs through SCAG. Internal Audit agreed to provide the SEIs, as they are public records, and FPPC is the agency that receives these forms. Internal Audit provided copies of the requested documents to FPPC on October 5, 2023.

B. Upcoming Internal Audit Projects

Internal Audit has three projects to perform in the remainder of fiscal year 2024:

1. *Internal audit of REAP 1 subrecipients or Councils of Governments / government agencies.* This audit randomly selects several agencies performing REAP 1 projects. The objectives of this audit are to determine whether:
 - A. SCAG and the agencies followed SCAG policies and procedures regarding REAP 1 payments.
 - B. REAP 1 grant and California Department of Housing and Community Development (HCD) requirements were met.
 - C. REAP 1 funds were used appropriately to meet objectives.
 - D. Agencies' invoices were properly documented and approved.
 - E. Payment amounts by SCAG to the agencies were correct.
2. *Internal audit of REAP project selection process.* The audit objectives are:
 - A. Consider how projects were submitted.
 - B. Assess the process of project selection.
 - C. Determine what are selection criteria and how assessed.
 - D. Consider how projects can be best submitted for consideration and selection.
3. *Internal Audit Risk Assessment update.* Internal Audit last performed an organizational risk assessment of SCAG in 2021. Risks will be assessed in terms of importance to the mission of SCAG, materiality, and likelihood of issues occurring. Internal Audit will assess the current needs of SCAG considering its goals as expressed by the Strategic Plan and other management goals. Internal Audit will conduct interviews with management of all departments at the executive level and throughout SCAG. Internal Audit will ask general questions about each manager's function and responsibilities, goals and obstacles, concerns



and ideas for improvement, and areas where they think Internal Audit could help achieve their goals. Internal Audit will review policies and procedures, departments' internal manuals, external rules from entities that supply grant funds, planning documents, financial and audit reports, and other internal operational reports.

FISCAL IMPACT:

None.