



SOUTHERN CALIFORNIA  
ASSOCIATION OF GOVERNMENTS  
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Los Angeles, CA 90017  
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www.scag.ca.gov

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## REMOTE PARTICIPATION ONLY

# AUDIT COMMITTEE

**Wednesday, April 29, 2020**  
**10:30 a.m. – 12:00 p.m.**

### **PUBLIC ADVISORY**

Given recent public health directives limiting public gatherings due to the threat of COVID-19 and in compliance with the Governor's recent Executive Order N-29-20, the meeting will be held telephonically and electronically.

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

### **PUBLIC COMMENTS**

In advance of the meeting, please submit Public Comments by email to: [ePublicComment@scag.ca.gov](mailto:ePublicComment@scag.ca.gov). All Public Comments received will be included in the official record of the meeting.

If members of the public wish to review the attachments or have any questions on any of the agenda items, please contact Peter Waggoner at (213) 630-1402 or via email at [waggoner@scag.ca.gov](mailto:waggoner@scag.ca.gov). Agendas & Minutes are also available at: [www.scag.ca.gov/committees](http://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) 630-1402. 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.



## Detailed Instructions for Participating in the Meeting

The Regular Meeting of the Audit Committee is scheduled for Wednesday, April 29 at 10:30 a.m. and is accessible telephonically and electronically (web-based video conferencing) via Zoom. As Zoom offers optimal functionality through its web-based application, we recommend using a computer to access the meeting. Instructions for both options can be found below.

### To Join By Zoom

1. Click the following link: <https://scag.zoom.us/j/316673359>.
2. If Zoom is not already installed on your computer, click “download & run Zoom” on the launch page and press “run” when prompted by your browser. If Zoom has previously been installed on your computer, please allow a few moments for the application to launch automatically.
3. Select “Join Audio via Computer.”
4. The virtual conference room will open. If you receive a message reading, “Please wait for the host to start this meeting,” simply remain in the room until the meeting begins.

### To Join By Phone

1. Call **(669) 900-6833** to access the conference room. Given high call volumes recently experienced by Zoom, please continue calling until you connect successfully.
2. Enter the **Meeting ID: 316 673 359**, followed by #.
3. Indicate that you are a participant by pressing # to continue.
4. You will hear audio of the meeting in progress. Remain on the line if the meeting has not yet started.
5. Press \*6 to mute and unmute your phone.

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The public is encouraged to submit comments by sending an email to: [ePublicComment@scag.ca.gov](mailto:ePublicComment@scag.ca.gov). All written comments received before and during the Public Comment period will be read by SCAG staff (up to 3 minutes) and included as part of the official record of the meeting. The Chair has the discretion to reduce the time limit based upon the number of e-comments received and may limit the total time for all public comments to twenty (20) minutes.

## To view past meeting videos: <http://scag.iqm2.com/Citizens/>

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## Members of the Audit Committee

Date: Wednesday, April 29, 2020  
Time: 10:30 AM -12:00 PM  
Location: Remote Participation Only

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1. **Hon. Clint Lorimore, Chair**  
*City of Eastvale, District 4*
2. **Hon. Sean Ashton, Vice Chair**  
*City of Downey, District 25*
3. **Hon. Rex Richardson**  
*City of Long Beach, District 29*
4. **Hon. Alan Wapner**  
*City of Ontario, SBCTA*
5. **Hon. Michael Carroll**  
*City of Irvine, District 14*
6. **Hon. Margaret Clark**  
*City of Rosemead, District 32*
7. **Hon. Margaret Finlay**  
*City of Duarte, District 35*
8. **Hon. Steve Manos**  
*City of Lake Elsinore, District 63*
9. **Hon. Fred Minagar**  
*City of Laguna Niguel, District 12*
10. **Sup. Linda Parks**  
*Ventura County*
11. **Hon. Carmen Ramirez**  
*City of Oxnard, District 45*
12. **Hon. Ali Saleh**  
*City of Bell, District 27*
13. **Hon. Marty Simonoff**  
*City of Brea, District 22*
14. **Hon. Cheryl Viegas-Walker**  
*City of El Centro, District 1*
15. **Hon. Edward H.J. Wilson, CPA**  
*City of Signal Hill*



## AUDIT COMMITTEE AGENDA

Southern California Association of Governments  
Remote Participation Only  
**Wednesday, April 29, 2020**  
**10:30 AM**

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

### **CALL TO ORDER AND PLEDGE OF ALLEGIANCE**

*(The Honorable Clint Lorimore, Chair)*

### **ROLL CALL**

### **PUBLIC COMMENT PERIOD**

The public is encouraged to submit comments by sending an email to: [ePublicComment@scag.ca.gov](mailto:ePublicComment@scag.ca.gov). All written comments received before and during the Public Comment period will be read by SCAG staff (up to 3 minutes) and included as part of the official record of the meeting. The Chair has the discretion to reduce the time limit based upon the number of e-comments received and may limit the total time for all public comments to twenty (20) minutes.

### **REVIEW AND PRIORITIZE AGENDA ITEMS**

### **CONSENT CALENDAR**

#### Approval Item

1. Minutes of the January 29, 2020 Meeting

### **INFORMATION ITEMS**

- |   |          |
|---|----------|
| 2. FY 2019-20 Briefing from Financial Auditors<br><i>(Joshua Margraf, Internal Auditor)</i>           | 30 mins. |
| 3. Project Management Process Improvement and Audit Status<br><i>(Kome Ajise, Executive Director)</i> | 20 mins. |
| 4. Risk Assessments Results<br><i>(Joshua Margraf, Internal Auditor)</i>                              | 10 mins. |
| 5. Lessons Learned – Pre-Awards/Procurement<br><i>(Joshua Margraf, Internal Auditor)</i>              | 15 mins. |
| 6. Internal Audit Status Report<br><i>(Joshua Margraf, Internal Auditor)</i>                          | 10 mins. |

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**FUTURE AGENDA ITEM/S**

**ANNOUNCEMENT/S**

**ADJOURNMENT**

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Southern California Association of Governments  
Remote Participation Only  
**April 29, 2020**

**AUDIT (AC) COMMITTEE**  
**MINUTES OF THE MEETING**  
**WEDNESDAY, January 29, 2020**

THE FOLLOWING MINUTES ARE A SUMMARY OF ACTIONS TAKEN BY THE AUDIT COMMITTEE. A VIDEO RECORDING OF THE ACTUAL MEETING IS AVAILABLE AT: <http://scag.igm2.com/Citizens/>

The Audit Committee met at SCAG, 900 Wilshire Blvd., 17<sup>th</sup> Floor, Los Angeles, CA 90017. The meeting was called to order by Chair Clint Lorimore. A quorum was present.

**Members Present:**

<b>Clint Lorimore, Chair</b>	<b>City of Eastvale</b>	<b>District 4</b>
Hon. Sean Ashton, Vice Chair	<i>Downey</i>	District 25
Hon. Margaret Clark	<i>Rosemead</i>	District 32
Hon. Margaret Finlay	<i>City of Duarte</i>	District 35
Hon. Fred Minagar	<i>Laguna Niguel</i>	District 12
Supv. Linda Parks		Ventura County
Hon. Carmen Ramirez	<i>Oxnard</i>	District 45
Hon. Ali Saleh	<i>Bell</i>	District 27
Hon. Marty Simonoff	<i>Brea</i>	District 22
Hon. Cheryl Viegas-Walker	<i>El Centro</i>	District 1
Hon. Edward Wilson	<i>Signal Hill</i>	District 11

**Members Not Present**

Hon. Michael Carroll	<i>Irvine</i>	District 14
Hon. Steve Manos	<i>Lake Elsinore</i>	District 63
Hon. Rex Richardson	<i>Long Beach</i>	District 29
Hon. Alan D. Wapner	<i>Ontario</i>	SBCTA

**CALL TO ORDER AND PLEDGE OF ALLEGIANCE**

Chair Lorimore called the meeting to order at 10:32 a.m. and asked Councilmember Margaret Finlay, City of Duarte, District 35, to lead the Pledge of Allegiance.

**ROLL CALL**

A roll call for attendance was made and it was determined that a quorum was present.

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### **PUBLIC COMMENT PERIOD**

There were no public comments.

### **REVIEW AND PRIORITIZE AGENDA ITEM**

There were no reprioritizations made.

### **CONSENT CALENDAR**

#### **Approval Item**

##### 1. Minutes of the October 23, 2019 Meeting

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

FOR: Clark, Finlay Lorimore, Minagar, Parks, Ramirez, Saleh, Simonoff, Viegas-Walker and Wilson (10).

AGAINST: None (0).

ABSTAIN: Ashton (1).

### **INFORMATION ITEMS**

##### 2. Fiscal Year (FY) 2018-19 External Financial Audit

Josh Margraf, Internal Auditor, introduced Roger Alfaro, Partner, Eide Bailly, LLP, SCAG's financial auditors. Mr. Alfaro provided a summary of Eide Bailly's FY 2018-19 audit results. His presentation included a discussion of the Comprehensive Annual Financial Report (CAFR); a report on internal control over financial reporting; and a report on compliance over major federal programs.

Mr. Alfaro reported that there were no material weaknesses of internal control over financial reporting, compliance and other matters. He reported there was an unmodified opinion for SCAG's FY 2018-19 financial statements (CAFR), Single Audit and compliance.

At the conclusion of Mr. Alfaro's presentation, Committee members also requested background information on Eide Bailly to include Vavrinek, Trine, Day & Company (VTD), which merged with

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Eide Bailly last year. Prior to joining Eide Bailly, VTD performed SCAG's financial audit during past years and was the company SCAG entered into contract with to perform financial audits.

### 3. Project Management Improvements Updates

Kome Ajise, Executive Director, provided updates on Project Management Improvements that have taken place since the last Audit Committee meeting on October 23, 2019. He reported that SCAG staff communicated to Caltrans that 100% of Caltrans' Corrective Action Plans (CAPs) requirements have been completed, and he noted that SCAG had submitted all required documentation to Caltrans planning staff. Mr. Ajise acknowledged that although the staff report refers to SCAG letters as being attached, the letters were inadvertently omitted from the report. He noted that the letters had been submitted in previous reports to the Committee, and SCAG will re-send if the Committee desires.

Mr. Ajise asked Debbie Dillon, Chief Strategy Officer, to provide additional highlights of the process improvements that are underway by the "4Ps Staff Committee" (4Ps), which SCAG established to address the Caltrans recommendations.

Ms. Dillon reported that significant progress has been made and the 4Ps continues to work on addressing the CAPs. She highlighted some major accomplishments including:

- Updated Accounting, Budget and Grants, and Procurement manuals, which have been shared on SCAG's Intranet.
- Mandatory project management training for all staff – two training sessions have been completed, and the training is to continue monthly until all employees have completed it.
- New staff development opportunity – a one-year rotational assignment to help create an Enterprise-wide Project Management Office, which is intended to ensure agency-wide project management practices are embedded into agency procedures and consistently followed.
- Consultant assistance – SCAG hired a consultant to assist with process improvement in procurement and project work-plan development.

Mr. Ajise reported that a key initiative that started over the past year by Contracts staff is to change SCAG's default contracting model from a "Cost Plus Fixed Fee" contract to a "Firm Fixed Price," which is intended to resolve some vendor issues and improve the procurement process by making it more streamlined.

SCAG staff responded to comments and questions from Committee members, including questions about and recommendations for SCAG's recruitment of new vendors to include best practices. One suggestion made by the Committee was for SCAG to develop and provide the Committee with a monthly report on contracts' status, noting any material issues. This information could be included in the monthly Executive Director's report provided to the Regional Council. Mr. Ajise noted that controls

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are already in place to track contract expiration dates and that the Executive Team is provided a monthly Contracts report, but he would consider input from the Committee.

Additional discussion ensued on ensuring that SCAG's vendors feel engaged and their feedback is used as part of continued improvements being made in the area of procurement and as part of evaluating the effectiveness of any changes in the procurement process. Committee members requested that staff modify and improve the current vendor survey for future survey submissions to make the questions clearer for vendors and ensure accurate responses. Mr. Ajise noted that the preference would be to use the same questions when sending out the survey at a later date so as to make measuring improvement more straightforward – if the questions remained the same and responses improved, then SCAG could better ascertain where improvements in procurement occurred.

#### 4. Internal Audit Annual Risk Assessment

Joshua Margraf, Internal Auditor, provided a brief overview of the risk assessment process. He requested that Committee members complete a risk input form and return it to Internal Audit to help identify risk areas and determine audit priorities. The risk input form was attached to the agenda. Mr. Margraf noted that the results of the risk assessment will be reported at the next AC meeting.

#### 5. Internal Audit Status Report

Joshua Margraf, Internal Auditor, presented the Internal Audit Status Report, which lists work performed since the last Committee meeting. Mr. Margraf provided highlights of the report including follow-up on prior reviews and results from pre-award work. He commented on requesting input from Committee members regarding the annual risk assessment, which was also discussed earlier in Agenda Item No. 4. Mr. Margraf also noted that two anonymous hotline reports are in process of being reviewed and closed out.

### **FUTURE AGENDA ITEM**

Councilmember Carmen Ramirez, Oxnard, District 45, asked for a report on staff evaluations. Kome Ajise, Executive Director, responded that as Executive Director, he held 12 "Listening Sessions" with every employee in a group setting in order to engage and discuss each employee's development goals and to ascertain any concerns. He commented that concerns raised from the sessions has helped with implementing a strategic development initiative to create opportunities for staff to enhance their skills. He referred to Goal 5 of SCAG's Fiscal Year 2019-20 Agency Work Plan. Mr. Ajise noted that updates on the staff development program can be provided to the Committee at a future date.

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**ANNOUNCEMENTS**

Joshua Margraf, Internal Auditor, announced that the next meeting will be held on Wednesday, April 29, 2020 at 10:30 a.m. with a calendar appointment to be sent to the Committee prior to that date.

**ADJOURNMENT**

There being no further business, Chair Lorimore adjourned the Audit Committee meeting at 11:33 a.m.

Respectfully submitted by:  
Carmen Summers  
Audit Committee Clerk

[MINUTES ARE UNOFFICIAL UNTIL APPROVED BY THE AUDIT COMMITTEE]

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**AGENDA ITEM 2**  
**REPORT**

Southern California Association of Governments  
Remote Participation Only  
**April 29, 2020**

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**To:** Audit Committee (AC)

**EXECUTIVE DIRECTOR'S  
APPROVAL**

**From:** Joshua Margraf, Internal Auditor, (213) 236-1890,  
margraf@scag.ca.gov

**Subject:** FY 2019-20 Briefing from Financial Auditors

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**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:**

*SCAG's external financial auditors will present their plans for the 2019-2020 financial audit.*

**BACKGROUND:**

SCAG's external independent auditors, Eide Bailly, have started audit work on SCAG's FY 2019-20 financial statements. Eide Bailly plans to complete the audit and report the results to the committee in November or December of 2020. They will present their audit plan to the Audit Committee.

**FISCAL IMPACT:**

None

**ATTACHMENT(S):**

1. PowerPoint Presentation: AU-C 260 Planning Communication to Those Charged with Governance

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# **SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS**

AU-C 260 Planning Communication to those Charged with Governance  
April 29, 2020







# AUDIT SCOPE

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Perform the audit of the:

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

# OUR RESPONSIBILITY

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

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

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

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





# OUR RESPONSIBILITY

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

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



# OUR RESPONSIBILITY

## Communicate other matters:

- Qualitative aspects of accounting policies, accounting estimates and note disclosures
- Difficulties encountered
- Uncorrected misstatements
- Material corrected misstatements
- Disagreements with management
- Management representations
- Consultations with other accountants



# PLANNED SCOPE AND TIMING



# MANAGEMENT'S RESPONSIBILITIES

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



# OUR APPROACH

## Planning and Risk Assessment:

- Meet with Management
- Update our understanding of the entity, its environment and risks
- Identify audit risk areas
- Inspect financial and other information
- Consider/inquire regarding fraud risks
- Tone at the Top
- Understand the design and implementation of internal control
- Prepare risk assessment and audit plan
- Test key business cycles – revenue, disbursements, payroll, investments, capital assets, financial reporting, IT and budget
- Conduct periodic status meetings throughout fieldwork
- Single Audit – preliminary planning

# OUR APPROACH

## Final

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

## Exit

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

# NAVIGATING THE FUTURE

## Collaboration on Statements that Affect you:

- GASB 84 – Fiduciary Activities
- GASB 87 – Leases
- GASB 89 – Accounting for Interest Costs Incurred before the end of the Construction Period
- GASB 90 – Majority Equity Interests
- GASB 91 – Conduit Debt Obligations
- GASB 92 – Omnibus 2020
- GASB 93 – Replacement of Interbank Offered Rates

## Other Current GASB Projects that will result in issued Statements in the next 5 years:

- Financial Reporting Model
- Revenue and Expense Recognition
- Footnote Disclosure





# 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

**Roger Alfaro, CPA**  
Partner  
[ralfaro@eidebailly.com](mailto:ralfaro@eidebailly.com)  
909.466.4410



**CPAs & BUSINESS ADVISORS**



**AGENDA ITEM 3**  
**REPORT**

Southern California Association of Governments  
Remote Participation Only  
**April 29, 2020**

**To:** Audit Committee (AC)

**EXECUTIVE DIRECTOR'S  
APPROVAL**

**From:** Kome Ajise, Executive Director, 213-236-1835,  
Ajise@scag.ca.gov

**Subject:** Project Management Process Improvement and Audit Status

**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:**

*At the January 29, 2020 meeting, staff provided an update regarding the Caltrans Corrective Action Plans, the Plan of Cost Substitution, the SCAG vendor survey and the process improvements underway in the Contracts department. This report provides a status update on those items and other agency efforts underway to support continuous improvement for project management and related processes, policies, and procedures.*

**BACKGROUND:**

**A. Corrective Action Plans - 100% Complete**

As reported in January, SCAG has complied with all 39 Corrective Action Plans (CAP) requirements and those changes to SCAG's procedures, policies, and practices remain in place as a part of normal operations. The 4Ps Committee, led by the Chief Strategy Officer and Chief Financial Officer, is acting as the oversight committee for those improvements and is pursuing other initiatives with a focus on procurement streamlining and project management delivery.

1. The 4Ps continued the training aimed at all SCAG staff regarding the new Accounting, Budget & Grants, and Procurement Manuals that were updated as part of the Caltrans CAPs. Two more training sessions were conducted in February and in April. One more series is planned for May to obtain 100% training attendance for all existing employees. Training will continue to be offered for new employees and refresher training as needed.

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2. On February 12, 2020, Caltrans informed SCAG that all issues in the Indirect Cost Allocation Plan audit were resolved, including acceptance of the Plan of Cost Substitution to offset the \$2,252,976 of disallowed costs. SCAG has yet to receive an audit resolution letter for the Incurred Cost Audit.

### **B. Continuing Process Improvement**

Consultant support has been hired by the planning division to assist with the process improvement and project work plan development. Two data gathering workshops were conducted in February, and the consultant is currently developing an excel-based work plan populated with SCAG specific task durations and dependencies. Additionally, the FY21 proposed SCAG budget includes staffing for a new management analyst position in the Transportation Planning and Programming department who will oversee the process of shepherding Sustainable Communities Program projects through the procurement phase.

The 4Ps has developed a procedure to fund contracts for each new fiscal year using a unilateral amendment which will reduce cycle time for the contract. The data collection process supporting the amount of the amendment has been streamlined to further reduce cycle time.

The 4Ps identified potential procedural changes required by the 2020 Local Assistance Procedures Manual concerning Civil Rights, Disadvantaged Business Enterprises and the Americans with Disabilities Act. The next steps are being coordinated with the Legal Department.

SCAG continues to move away from Cost-Plus-Fixed Fee contracts in order to make the Lump Sum format its default contracting model. The 2020 Local Assistance Procedures Manual, Chapter 10, provides that Firm-Fixed-Fee contracts cannot be amended while Lump Sum contracts can. Also Lump Sum contracts can include a milestone payment schedule. Since SCAG needs the ability to amend its contracts, it is utilizing Lump Sum contracts with milestone payment schedules. Of the 44 active procurements as of April 17, 2020, twenty-five, or 57 percent, were structured as Lump Sum contracts with milestone payments. That payment structure requires less administration and is more attractive to potential bidders as long as the scope of work in the RFP is drafted with enough specificity. Contracts is working with Project Managers to develop each new scope of work to that level to maximize the number of Lump Sum contracts. Contracts department has also developed a solicitation intake form, which streamlines the collection of all the necessary elements of a request for proposal (RFP) into an easy to follow checklist.

### **C. Project Management Office**

SCAG advertised a one-year staff rotational assignment to help create an Enterprise-Wide Project Management Office (PMO). This rotational assignment was designed to provide seasoned and highly skilled project management staff an opportunity to architect and design the office. The

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position will be filled in early May and will initially report to the Chief Strategy Officer. The PMO and 4Ps will meet to set a path forward for the remaining work.

**FISCAL IMPACT:**

The final Corrective Action Plans issued by Caltrans sought \$4,401,565 in reimbursement from SCAG as follows: \$2,148,589 for disallowed costs in Incurred Cost Audit (ICA) and \$2,252,976 for disallowed costs in the Indirect Cost Allocation Plan (ICAP) Audit. SCAG is awaiting resolution of the ICA disallowance while the ICAP disallowance has been offset with substitute costs.



**AGENDA ITEM 4  
REPORT**

Southern California Association of Governments  
Remote Participation Only  
**April 29, 2020**

**To:** Audit Committee (AC)

**EXECUTIVE DIRECTOR'S  
APPROVAL**

**From:** Joshua Margraf, Internal Auditor, (213) 236-1890,  
margraf@scag.ca.gov

**Subject:** Risk Assessment Results

**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 solicited input from SCAG's Audit Committee and management team regarding key risk areas affecting the organization to inform its annual audit planning.*

**INTRODUCTION:**

As part of its annual audit planning on how to maximize use of audit resources, Internal Audit sent the Audit Committee as well as SCAG's management team a risk assessment input form highlighting key agency risk areas and requested that these risk areas be ranked by degree of risk (see Attachment 1) as part of helping determine audit priorities.<sup>1</sup>

**BACKGROUND:**

In February, Internal Audit requested that the Audit Committee and management complete the risk assessment input form as well as add any areas of concern that they would like to see addressed. The responses in conjunction with any findings stemming from external and internal audit work are to help inform audit planning for the next fiscal year. The areas with a higher degree of risk would receive more attention as to how the agency is addressing/mitigating risk. Upon receiving

<sup>1</sup>Internal Audit also provided definitions of the risk areas (see Attachment 2). The 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.

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

**RESULTS:**

The overall response rate was 39.53 percent.<sup>2</sup> 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 overall/total score. Not all respondents rated each risk area, noting that they were unfamiliar with the area and/or SCAG operations related to the risk area. Table 1 shows the overall score for each risk area.

**Table 1: Risk Area – Total Points**

Risk Area	Degree of Risk			Count
	High	Moderate	Low	
Business Continuity / Recovery Planning*	3	7	6	16
Cash Management*	2	1	13	16
Contract / Vendor Monitoring	2	9	6	17
Ethics	2	2	11	15
Financial Reporting	1	3	11	15
Form 700	2		14	16
Human Resources	1	5	11	17
Information Services / Technology	3	4	9	16
Procurement / Contracts	2	10	5	17
Project Management	3	12	2	17
Strategic Plan	1	2	14	17
Sub-recipient Monitoring	1	5	8	14
Other	1	3	1	5

*Source: Completed risk assessment input forms.*

Most respondents rated each category, and five provided additional comments related to areas not listed on the risk assessment input form.

Table 2 shows the risk areas ranked from highest point total to lowest point total.

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<sup>2</sup>Internal Audit sent the risk assessment input form to a total of 43 individuals, and received 17 responses—four from the Audit Committee and 13 from management staff.

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**Table 2: Risk Area Ranking – Most Points to Least Points**

Risk Area	Ranking	Total Points
Project Management	1	35
Procurement / Contracts	2	31
Contract / Vendor Monitoring	3	30
Business Continuity / Recovery Planning	4	29
Information Services / Technology*	5	26
Human Resources	6	24
Cash Management*	7	21
Ethics	8	21
Strategic Plan	9	21
Sub-recipient Monitoring*	10	21
Financial Reporting*	11	20
Form 700*	12	20
Other	13	10

*Source: Completed risk assessment input forms.*

The three areas of risk ranked highest are Project Management, Procurement/Contracts, and Contract/Vendor Monitoring. Business Continuity/Recovery Planning was also ranked relatively high.

Comments provided tended to relate to project management, which is not surprising given the agency’s recent focus on improving its project management processes, to include procurement, as a result of audit findings. More staff are becoming aware of the importance of sound project management practices given recent trainings related to project management. Respondents mentioned these trainings as a positive, but also noted that there are many project management activities with no centralized project management group to provide guidance. This can create inconsistency across the agency in how staff and consultant effort are managed, to include compliance with state and federal requirements, especially with no centralized function checking compliance requirements. Another response noted that SCAG lacks some helpful project management tools to include an invoice tracking system or an ability to search contracts by line item budgets. With regard to monitoring contracts and vendors, one response noted that ensuring SCAG has good quality assurance steps built into its processes is important so as to help make sure SCAG receives good work products and that a certain level of quality is reached. Comments related to Business Continuity/Recovery Planning noted that certain processes and departments have not regularly participated in teleworking and rely on paper processes, so it is unknown how prolonged teleworking would impact SCAG operations.





SCAG has actions underway to help address some of the areas identified as having a high degree of risk. For example, SCAG has held trainings related to project management, to include budgeting resources for staff, educating staff on various federal and state regulations, and discussing the importance of cost estimating at project management trainings, among other things. Also, SCAG has been forced to continue operations predominantly via telework given the coronavirus pandemic. This has allowed the agency to demonstrate its ability to maintain continuity of operations, to include those functions that do not traditionally telework, such as Accounting, as well as capture lessons-learned as to what has worked well and what could be improved upon in relation to telework.

Five respondents marked the “Other” category on the risk assessment form, and provided information on areas that they felt exposed the agency to risk. For instance, one area considered high risk related to ensuring consistency between SCAG’s major projects, including Connect SoCal and the Program Environmental Impact Report (PEIR) while avoiding any potential legal action. An additional risk area mentioned was lack of sufficient staff resources to handle the volume of projects, including those in which SCAG passes through funding to subrecipients, which can cause delays and potential mistakes throughout each phase of a project. Another area of risk mentioned that certain knowledge areas at SCAG are predominantly practiced by only a few individuals, so if one of those persons were to leave the agency, SCAG would have to rush to reassemble such expertise.

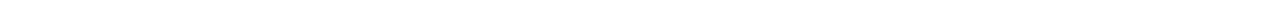
The results of this risk assessment (in conjunction with any findings stemming from prior and current external and internal audit work) will inform the upcoming annual audit plan which will be presented to the Audit Committee at an upcoming meeting.

**FISCAL IMPACT:**

None

**ATTACHMENT(S):**

1. Risk Assessment Input Form
2. Descriptions of Risk Areas





**RISK ASSESSMENT INPUT FORM**  
**FISCAL YEAR 2020-2021**

<b>Name:</b>	
<b>Date:</b>	

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

<b>COMMENTS:</b>
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PLEASE SAVE COMPLETED FORM and E-MAIL AS AN ATTACHMENT TO: [margraf@scag.ca.gov](mailto:margraf@scag.ca.gov).

Josh Margraf, Internal Auditor  
 Tel: 213.236.1890

The following list contains a brief description of each risk area that is listed on the *Risk Assessment Input 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**

Practices, processes and procedures used in the collection, handling, disbursing, investing, and usage of cash.

**CONTRACT/VENDOR MONITORING**

Practices, processes and procedures used to ensure that invoices billed are legitimate, allowable, and in accordance with contract terms. In addition, practices, processes and procedures used by SCAG to track and monitor consultant/vendor performance.

**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.

**FINANCIAL REPORTING**

Periodic, monthly, and/or annual reporting of activities of an entity according to Generally Accepted Accounting Principles (GAAP). SCAG typically has an independent CPA firm review its financial statements and help develop its Comprehensive Annual Financial Report (CAFR).

**FORM 700**

Every elected official and public employee who makes or influences governmental decisions is required to submit a Statement of Economic Interest, also known as Form 700, which helps provide transparency and accountability by: (1) providing information on officials’ personal finance interests so as to show officials’ decisions are in the public’s best interest 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 governmental decisions deemed conflicts of interest.

**HUMAN RESOURCES**

Practices, processes, and procedures used by human resources to help ensure SCAG follows applicable legal requirements, including equal opportunity practices to include hiring practices as well as privacy and security practices.

**INFORMATION SERVICES/TECHNOLOGY**

Practices, processes, and procedures related to management of IT services and equipment as well as security in the IT area. Also, includes practices, processes, and procedures used to help ensure that SCAG receives the services it is paying for and that SCAG data are secure.

**PROCUREMENT/CONTRACTS**

Practices, processes and procedures SCAG uses to acquire goods and/or services from an external source. SCAG’s procurement process must follow federal and state guidelines while also being fair and transparent.

**PROJECT MANAGEMENT**

Practices, processes, and procedures used by SCAG to manage projects, from inception to completion. SCAG projects can include staff effort, consultant effort, or a combination of both.

**STRATEGIC PLAN**

A Strategic Plan should exist. It should be current, and staff should follow its provisions.

**SUBRECIPIENT MONITORING**

Practices, processes, and procedures used by SCAG to monitor any subrecipients that received federal funding via SCAG to ensure SCAG and any subrecipients are in compliance with applicable federal regulations.



**AGENDA ITEM 5**  
**REPORT**

Southern California Association of Governments  
Remote Participation Only  
**April 29, 2020**

**To:** Audit Committee (AC)

**EXECUTIVE DIRECTOR'S  
APPROVAL**

**From:** Joshua Margraf, Internal Auditor, (213) 236-1890,  
margraf@scag.ca.gov

**Subject:** Lessons Learned – Pre-Awards/Procurement

**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 identified potential lessons-learned stemming from pre-award work.

**BACKGROUND:**

Pre-award reviews are a large component of Internal Audit's work.<sup>1</sup> They are part of the procurement process and are performed at the request of contract administrators prior to negotiating contract rates with a consultant. While performing pre-award reviews and speaking with SCAG staff involved in the process, including planners and contract administrators, Internal Audit has identified some potential lessons-learned related to the procurement process that may help improve transparency and increase efficiency. Internal Audit sent questions to SCAG's Finance Division managers to learn if such ideas have been incorporated/are being incorporated into the SCAG's efforts in updating the procurement side of its project management processes.<sup>2</sup>

<sup>1</sup>Pre-award reviews are non-audit services performed at the request of Contracts staff. A pre-award review request is typically based on the following: (1) if an overall proposal is \$250,000 or more, (2) if a direct labor rate is \$100 per hour or more, (3) if an overhead rate exceeds 150 percent, or (4) if a fringe rate is 50 percent or higher. Internal Audit performs pre-award reviews after SCAG selects a consultant proposal, but prior to contract negotiation and execution. Pre-award reviews inform and help Contracts Department staff with cost negotiations by identifying whether consultants' proposed rates are reasonable, allocable, and allowable as well as highlighting potential risks that may be posed by a consultant (e.g. inability to provide requested support for proposed costs, cannot meet contracting requirements, etc.).

<sup>2</sup>Internal Audit sent the Finance Managers questions related to ongoing process improvements related to procurement on April 2, 2020. SCAG's Chief Financial Officer (CFO) provided responses on April 2, 2020.

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Below lists some lessons-learned that have arisen from performing pre-award work.

*1. Tracking Procurement-related Issues per Consultant and Sub-Consultant Can Assist with Procurement Efficiency*

SCAG tends to contract with the same consultants on multiple occasions for a variety of reasons, such as certain consultants having an expertise with planning work, and others being familiar with SCAG procurement process requirements so as to be able to quickly respond to RFP and other requests for information, among other things. At times, consultants have demonstrated issues with providing support for proposed costs. Other times, a consultant will list the same personnel across multiple proposals. Sometimes proposals include subconsultants that are relatively small, or are a nonprofit, that have difficulty meeting contracting requirements, such as an inability to segregate indirect and direct costs or provide payroll information. Some of these subconsultants also appear on multiple contracts under a different prime consultant.

Given repeated use of the same consultant, tracking issues (e.g. lack of documentation, inability to segregate direct and indirect costs, etc.) related to consultants and subconsultants per contract in a manner easily accessible to staff would be helpful to those staff reviewing and evaluating proposals. It can provide planners/project managers and contract administrators with insight as to what questions to ask based on a proposal's consultant and/or subconsultants. Tracking and availability of such issues could also help staff with planning sufficient time for completing the procurement process (to include any pre-award reviews) if they anticipate potential issues depending on the firms that submitted proposals. It can also allow staff to see how SCAG addressed similar issues with consultants and subconsultants on other contracts. Further, tracking of consultants and subconsultants enhances transparency as it would allow staff to easily check consultant cost information across contracts so as to ensure rate consistency.

SCAG does send out a procurement report to the management team on a weekly basis. This report lists the prime consultant and includes comments related to the status of each procurement. It does not include subconsultants. However, the Finance Division indicated that Contracts and Accounting Department staff are aware of the subconsultants that are on each contract, so it would just be a matter of aggregating the data. Also, SCAG's Financial Management Information System (FMS) allows staff to determine whether a consultant has a current contract or had a recent contact with SCAG, so this is a tool staff can use to research whether and when a consultant has done business with SCAG. Overall, there does not seem to be specific tracking of procurement-related issues per consultant and/or subconsultant readily available for staff to access.

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## *2. Tracking and Documenting Consultant Performance Can Provide Additional Information to the Procurement Process*

With regard to consultant performance, SCAG staff are supposed to review performance when they receive invoices (which include consultant progress reports) as well as when completing the contract close-out when a contract is finished. Some contracts have also required consultants to submit a quarterly progress report. It may be helpful for SCAG to have planners/project managers complete a performance report for consultants on contracts they manage on a regular basis (e.g. quarterly), as doing so would provide SCAG an opportunity to identify and document performance issues. It could also help catch any issues as they arise before they expand. These performance reports could become part of the agency's file on a consultant that staff can access to see what, if any, issues exist as well as how they were resolved. Also, a consultant receiving a certain number of poor performance reviews could be flagged.

According to Finance Division responses, SCAG is trying to move to a lump-sum type of contract that includes milestone payments rather than a cost plus fixed fee model the agency has typically used.<sup>3</sup> As such, ongoing evaluation of consultant performance will become less of an issue since this contract type places much of the risk on the consultant in that SCAG would only pay if a contract milestone had been adequately achieved.<sup>4</sup>

## *3. Documenting, collecting, and tracking Information Related to SCAG Independent Cost Estimates Can Provide Assistance to Staff in Determining Costs*

In instances where consultants do not provide adequate support for proposed costs during a pre-award review, SCAG has relied heavily on planners/project managers' independent cost estimates (ICE) to help gauge whether proposed costs appear reasonable by comparing ICE costs with proposal costs. As such, it is important that a SCAG ICE should be developed in a sufficient manner

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<sup>3</sup>Caltrans recently updated the Caltrans Local Assistance Procedures Manual to include descriptions of contract types. As per chapter 10 of the manual, a lump sum contract refers to an agreement in which the consultant performs services as stated in the contract for an agreed amount as compensation, including a net fee or profit. This method of payment is appropriate only if the extent, scope, complexity, character, duration, and risk of the work have been sufficiently defined to permit fair compensation to be determined and evaluated by all parties during negotiations. A firm fixed price method of payment is not the same as lump sum. Firm Fixed Fee contracts cannot be amended while Lump Sum contracts can. Also, Lump Sum contracts can include a milestone payment schedule. Since SCAG needs the ability to amend contracts, it is utilizing Lump Sum contracts with milestone payment schedules. See <https://dot.ca.gov/-/media/dot-media/programs/local-assistance/documents/lapm/ch10.pdf>.

<sup>4</sup>Consultants would still need to demonstrate they have the ability to meet government contracting requirements, such as an adequate accounting system that allows for job costing and segregation of direct and indirect costs, among other things.

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so as to ensure effective use of public funds. Documenting, collecting, and tracking SCAG ICEs in a manner that is easily accessible to staff would help those tasked with developing ICEs to see what was done for other SCAG projects (to include how the various costs, such as labor and other direct costs were developed). It could also assist SCAG in developing a database of, or benchmark for, certain costs, such as labor rates and/or media costs, among others.

SCAG has started discussing the importance of the ICE at project management trainings, but staff have indicated more detailed training needs to be developed. In the meantime, the Finance Division has been assisting planners/project managers as needed with developing and documenting an ICE.

#### *4. Providing Information and Guidance on Contract Types Could Help with Efficiency*

In order to help streamline the procurement process and make it more efficient for consultants in terms of invoicing, SCAG has started moving to a lump sum model of contracting rather than the typical cost plus fixed fee type used previously. Ensuring planning and project management staff have guidance they can consult on how to determine which type of contract (e.g. cost plus fixed fee, lump sum, etc.) to use when pursuing consultant work would be helpful in making the transition smoother as well as ensuring SCAG is meeting state and federal requirements. This could include examples of scopes of work from other contracts that met the threshold for lump sum contracts.

Finance Division responses indicate that planners/project managers are to complete a “solicitation intake” form, which is a tool to help them draft a statement of work with enough detail so SCAG can use a lump sum contract with milestone payment structure. Contract administrators review the solicitation intake form and make the determination whether a lump sum contract is appropriate based on the level of detail in the form.

#### **CONCLUSION:**

SCAG is making progress in terms of ensuring staff are aware of the project management process to include procurement of consultant services. Project management trainings are designed to educate staff in further detail regarding various federal and state regulations. As SCAG continues to refine its project management training and update its procurement processes, it may want to think of ways to incorporate additional transparency into procurement issues so as to help minimize potential issues with future procurements while helping to further streamline and speed up the process for staff. Further, as SCAG begins to develop additional ICE training, soliciting input of planning staff as well as capturing information from current and past ICEs may be helpful.

#### **FISCAL IMPACT:**

None

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**AGENDA ITEM 6  
REPORT**

Southern California Association of Governments  
Remote Participation Only  
**April 29, 2020**

**To:** Audit Committee (AC)

**EXECUTIVE DIRECTOR'S  
APPROVAL**

**From:** Joshua Margraf, Internal Auditor, (213) 236-1890,  
margraf@scag.ca.gov

**Subject:** Internal Audit Status Report

**RECOMMENDED ACTION:**

For Information Only – No Action Required

**STRATEGIC PLAN:**

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

**EXECUTIVE SUMMARY:**

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

**BACKGROUND:**

Since the last Audit Committee meeting, Internal Audit has assisted the Contracts Department with pre-award reviews; reviewed the risk assessment input forms; identified potential lessons-learned stemming from performing pre-award reviews; and provided assistance in SCAG’s process improvement efforts by helping with project management training; and monitored SCAG’s Ethics Hotline. With regard to Internal Audit’s annual audit plan, staff effort this year has been focused on areas related to project management as well as performing multiple pre-award reviews.

*A. Pre-award Reviews*

Table 1 list results of recent pre-award review work.<sup>1</sup>

<sup>1</sup>Pre-award reviews are non-audit services performed at the request of Contracts staff. A pre-award review request is typically based on the following: (1) if an overall proposal is \$250,000 or more, (2) if a direct labor rate is \$100 per hour or more, (3) if an overhead rate exceeds 150 percent, or (4) if a fringe rate is 50 percent or higher. Internal Audit performs pre-award reviews after SCAG selects a consultant proposal, but prior to contract negotiation and execution. Pre-award reviews inform and help Contracts Department staff with cost negotiations by identifying whether consultants’ proposed rates are reasonable, allocable, and allowable as well as highlighting potential risks that may be posed by a consultant (e.g. inability to provide requested support for proposed costs, cannot meet contracting requirements, etc.).

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**Table 1: Pre-award Reviews performed by Internal Audit**

<u>Contract Number (Consultant)</u>	<u>Proposal Amount</u>	<u>Questioned Costs</u>	<u>Final Contract Amount<sup>a</sup></u>
19-033 (Corgan)	\$128,969	\$7,980	\$80,210
19-051 (KOA Corporation)	\$149,930	\$8,211	\$143,540
19-058 (Steer)	\$156,489	\$12,078	\$149,123
20-016 (Street Plans Collaborative)	\$472,027	\$100,232	\$428,884
20-018 (KOA Corporation)	\$200,267	\$5,941	\$183,737
20-019 (KOA Corporation)	\$145,110	\$16,043	\$130,238
20-023 (KTUA)	\$121,388	\$9,627	\$49,921
20-026 (Utopia Worldwide, Inc.)	\$62,457	\$25,504	\$37,954
20-030 (KOA Corporation)	\$210,014	\$5,167	\$194,467
20-037 (Civilian, Inc.)	\$750,519	\$625,606	\$747,860
Totals	\$2,397,170	\$816,389	\$2,145,934

<sup>a</sup>Questioned costs are not always sustained for various reasons, such as removal of subconsultants, shifting work to the prime consultant, and consultants providing additional information following the pre-award review, among other things. Contract negotiations can also reduce proposed costs.

Internal Audit completed multiple pre-award reviews. Table 1 lists the results of pre-award reviews related to contracts that have been executed. Pre-award results, including dollar amounts, for contracts that have not yet been executed will be reported at the next Committee meeting.<sup>2</sup>

*B. Risk Assessment*

As part of its annual audit planning on how to use audit resources, Internal Audit sent the Audit Committee as well as SCAG’s management team a risk assessment input form highlighting key agency risk areas, and requested that these risk areas be ranked by degree of risk. A separate report on the results of this process is included in the agenda packet.

*C. Lessons-Learned*

While performing pre-award reviews and speaking with SCAG staff involved in the process, including planners and contract administrators, Internal Audit has identified some potential lessons-learned related to the procurement process that may help increase efficiency. A separate report on these lessons-learned is included in the agenda packet.

*D. External Audits*

Eide Bailly has started audit work on SCAG’s FY 2019-20 financial statements. SCAG has submitted its responses to Caltrans regarding the findings from the incurred cost and indirect cost allocation plan (ICAP) audits, and is waiting for a response from Caltrans SCAG efforts.

<sup>2</sup>These are 19-062, 20-028, 20-031, 20-034, 20-036, 20-047, and 20-062.

- Financial Statement Audit

SCAG's external independent financial auditors have started preliminary audit work on SCAG's FY 2019-20 financial statements. Eide Bailly plan to complete the audit and report the results to the committee later in the fall. They will present their audit plan during the committee meeting. A copy of their presentation is provided in the agenda packet.

- Incurred Cost and ICAP Audits

SCAG has submitted responses to Caltrans related to the audit findings in November and December 2019. Caltrans provided a letter indicating resolution as to the ICAP audit findings in February 2020. SCAG is awaiting a final response from Caltrans regarding disallowed costs and a mutually-determined repayment schedule with regard to the incurred cost audit findings.

*E. Ethics Hotline Monitoring*

SCAG has not received any reports from the Ethics Hotline since the last Committee meeting January. SCAG is in the process of reviewing and closing out an existing report.

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