



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 28, 2021
10:30 a.m. – 12:00 p.m.

To Participate on Your Computer:

<https://scag.zoom.us/j/316673359>

To Participate by Phone:

Call-in Number: 1-669-900-6833

Meeting ID: 316 673 359

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

PUBLIC ADVISORY

Given 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.

If members of the public wish to review the attachments or have any questions on any of the agenda items, please contact Peter Waggonner at (213) 630-1402 or via email at waggonner@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) 630-1402. 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.



Instructions for Public Comments

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

1. **Submit written comments via email to: ePublicComment@scag.ca.gov by 5pm on Tuesday, April 27, 2021.**

All written comments received after 5pm on Tuesday, April 27, 2021 will be announced and included as part of the official record of the meeting.

2. **If participating via Zoom or phone, during the Public Comment Period, use the “raise hand” function on your computer or *9 by phone and wait for SCAG staff to announce your name/phone number. SCAG staff will unmute your line when it is your turn to speak. Limit oral comments to 3 minutes, or as otherwise directed by the presiding officer.**

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

OUR MISSION

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

OUR VISION

Southern California’s Catalyst for a Brighter Future

OUR CORE VALUES

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



Instructions for Participating in the Meeting

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

To Participate and Provide Verbal Comments on Your Computer

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

To Listen and Provide Verbal Comments by Phone

1. Call **(669) 900-6833** to access the conference room. Given high call volumes recently experienced by Zoom, please continue dialing 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. During the Public Comment Period, press *9 to add yourself to the queue and wait for SCAG staff to announce your name/phone number. SCAG staff will unmute your line when it is your turn to speak. Limit oral comments to 3 minutes, or as otherwise directed by the presiding officer.

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AC - Audit Committee Members – April 2021

- 1. Hon. Jan C. Harnik**
Chair, RCTC
- 2. Hon. Margaret Finlay**
Vice Chair, Duarte, RC District 35
- 3. Hon. Sean Ashton**
Downey, RC District 25
- 4. Hon. Michael Carroll**
Irvine, RC District 14
- 5. Hon. Margaret Clark**
Rosemead, SGVCOG
- 6. Hon. Clint Lorimore**
Eastvale, RC District 4
- 7. Hon. Steve Manos**
Lake Elsinore, RC District 63
- 8. Hon. Fred Minagar**
Laguna Niguel, RC District 12
- 9. Sup. Carmen Ramirez**
Ventura County
- 10. Hon. Ali Saleh**
Bell, RC District 27
- 11. Hon. Marty Simonoff**
Brea, RC District 22
- 12. Hon. Cheryl Viegas-Walker**
El Centro, RC District 1
- 13. Hon. Alan Wapner**
SBCTA Representative
- 14. Hon. Edward Wilson**
Signal Hill, GCCOG

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AUDIT COMMITTEE AGENDA

Southern California Association of Governments
Remote Participation Only
Wednesday, April 28, 2021
10:30 AM

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

CALL TO ORDER AND PLEDGE OF ALLEGIANCE

(The Honorable Jan Harnik, Chair)

PUBLIC COMMENT PERIOD

Members of the public are encouraged to submit written comments by sending an email to: ePublicComment@scag.ca.gov by 5pm on Tuesday, April 27, 2021. Such comments will be transmitted to members of the legislative body and posted on SCAG’s website prior to the meeting. Written comments received after 5pm on Tuesday, April 27, 2021 will be announced and included as part of the official record of the meeting. Members of the public wishing to verbally address the Audit Committee will be allowed up to 3 minutes to speak, with the presiding officer retaining discretion to adjust time limits as necessary to ensure efficient and orderly conduct of the meeting. The presiding officer has the discretion to reduce the time limit based upon the number of 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 February 3, 2021 Meeting

INFORMATION ITEMS

- | | |
|--|----------|
| 2. Internal Auditor Recruitment Update
<i>(Darin Chidsey, Chief Operating Officer)</i> | 5 Mins. |
| 3. Fiscal Year 2020-21 Briefing from Financial Auditors
<i>(Roger Alfaro, Partner, Eide Bailly)</i> | 10 Mins. |
| 4. Project Management Process Improvement Update
<i>(Debbie Dillon, Chief Strategy Officer)</i> | 15 Mins. |
| 5. Internal Audit Status Report
<i>(Cindy Giraldo, Chief Financial Officer)</i> | 10 Mins. |

FUTURE AGENDA ITEMS

ANNOUNCEMENTS

ADJOURNMENT

OUR MISSION

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Southern California Association of Governments
Remote Participation Only
April 28, 2021

**AUDIT COMMITTEE (AC)
MINUTES OF THE MEETING
WEDNESDAY, FEBRUARY 3, 2021**

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

The Audit Committee held its regular meeting telephonically and electronically given 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. A quorum was present.

Members Present:

Hon. Jan Harnik, Chair		RCTC
Hon. Margaret Finlay, Vice Chair	<i>City of Duarte</i>	District 35
Hon. Sean Ashton,	<i>Downey</i>	District 25
Hon. Margaret Clark	<i>Rosemead</i>	District 32
Hon. Clint Lorimore	<i>City of Eastvale</i>	District 4
Hon. Steve Manos	<i>Lake Elsinore</i>	District 63
Hon. Fred Minagar	<i>Laguna Niguel</i>	District 12
Hon. Cheryl Viegas-Walker	<i>El Centro</i>	District 1
Hon. Alan D. Wapner	<i>Ontario</i>	SBCTA

Members Not Present

Hon. Michael Carroll	<i>Irvine</i>	District 14
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. Edward Wilson	<i>Signal Hill</i>	District 11

CALL TO ORDER AND PLEDGE OF ALLEGIANCE

The Honorable Jan Harnik called the meeting to order at 10:36 a.m., and asked Darin Chidsey, SCAG, COO, to lead the Pledge of Allegiance.



ZOOM ROLL CALL OBSERVATION

It was determined that a quorum was present.

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 6, 2020 Meeting

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

AYES: Ashton, Clark, Finlay, Harnik, Lorimore, Manos, Viegas-Walker and Wapner (8).

NOES: None (0).

ABSTAIN: None (0).

INFORMATION ITEMS

2. Fiscal Year (FY) 2019-20 External Audit

Josh Margraf, Internal Auditor, introduced Roger Alfaro, Partner, Eide Baily, LLP, SCAG's financial auditors. Mr. Alfaro provided a summary of Eide Baily's FY 2019-20 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 on major federal programs.

Mr. Alfaro provided details on the accounting policies which concern GASB 95 Guidance and Net Other Postemployment Benefits (OPEB) Liabilities.

Mr. Alfaro concluded his presentation noting there were no material weaknesses of internal control over financial reporting, compliance, and other matters. He reported there was an Unmodified Opinion for SCAG's FY 2019-20 financial statements (CAFR), Single Audit and Compliance.

SCAG staff responded on the comments and questions expressed by the Committee, including questions regarding OPEB estimates and what proactive measures SCAG can take to reduce liabilities. Additionally, the Committee requested that staff prepare and present a detailed staff report to the EAC at its meeting in March that outlines SCAG's net pension liability, in addition to a stand-alone report that further clarifies SCAG staff's employee benefit package, specifically the vacation buy back provision. Staff concurred.

3. Risk Assessment

Mr. Margraf provided a brief overview of the planning process for sending the risk assessment input form to the Audit Committee and management. He noted that the risk assessment input will inform the annual audit planning and that those results would be provided to the Committee at a later date.

Chair Harnik encouraged the Committee and SCAG's management to submit timely responses of the risk assessment input form.

4. Labor Charging Review

Mr. Margraf provided historical background and results of his review of SCAG's policy and procedures for labor/time charging. He noted that his review of SCAG's labor charging policy was initiated to determine the extent to which labor/time charging is accurate, allowable, and reasonable. He noted that without an official written policy that clearly outlines consistent labor charging procedures as well as defined accountability, it is challenging to evaluate the agency's effectiveness in ensuring proper labor/time charging.

Mr. Margraf concluded with his recommendation and noted that SCAG should develop and implement an official/time charging policy and procedures to help ensure compliance with pertinent state and federal requirements. He noted that SCAG management provided a response for this report and agrees with the recommendation to create a formal labor charging policy and that an initial draft of the policy would be prepared by mid-February.

SCAG staff responded on the comments and questions expressed by the Committee members, including questions regarding clarification of instances of mischarging, and the possibility of risks exposure for SCAG by not having a formal labor charging policy.

Furthermore, Executive Director Kome Ajise stated that going through the Caltrans audit where charging practices was an issue, any mischarging is unacceptable. He stated that in the interim and during personnel changes within the CFO department, an interim labor charging memorandum was drafted, as well as required training to help staff with labor charging guidance. He noted that SCAG's new Chief Financial Officer Cindy Giraldo, had been tasked with developing a formal written policy. He asked Ms. Giraldo to provide comments and timeframes.

Ms. Giraldo agreed with management's sentiment and with Mr. Margraf's recommendation. She stated that the importance of developing a formal labor charging policy is a priority and that the first initial draft would be reviewed by management by mid-February, and implementation would happen thereafter.

The Committee and staff expressed appreciation for Mr. Margraf's thorough report.

5. Project Management Process Improvement and Audit Status

Executive Director Ajise stated that the report includes status updates that are provided to the Committee at every meeting. He asked Chief Strategy Officer Debbie Dillon to provide highlights underway to support continuous improvement for project management and procurement processes.

Ms. Dillon noted that currently SCAG is waiting on one outstanding response from Caltrans regarding the under-recovery of indirect cost related to the Caltrans Corrective Action Plan. She indicated that SCAG staff will draft a letter to Caltrans in hopes of closure on this subject.

Additional process improvements highlighted in Ms. Dillon's presentation included, but was not limited to the following:

- Hiring critical staff to support project planning;
- Offering certified training courses to project managers;
- Implementation of a project management template-work/project planning tool;
- Assisting Finance business units to educate staff and streamline procurement processes including access to various existing tools;
- Establishing a new committee focused on additional improvements to the procurement process;
- CFO and Contracts Manager joined a stakeholder review group that assist the Caltrans Local Assistance Program, which offers an opportunity for them to learn additional procurement streamlining processes; and
- SCAG continues to move away from Cost-Plus Fixed Fee contracts. Contracts is working with Project Managers to develop new scope of work that aims to maximize the Lump Sum contracts structure.

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

6. Internal Audit Status Report

Mr. Margraf presented the Internal Audit Status Report, which lists work performed since the last Committee meeting. Mr. Margraf provided highlights of the report including status updates on Information Technology (IT) evaluation of its data centers and IT's deployment of upgraded laptops to all SCAG staff.

Mr. Margraf noted that there were no new Ethics Hotline reports received since the last AC meeting in October.

Darin Chidsey, COO, stated that the ethics hotline monitoring will be managed by SCAG's Chief Counsel Mike Houston.

ANNOUNCEMENTS

Mr. Margraf announced his resignation and noted that today would be his last AC meeting.

The Committee and SCAG staff expressed appreciation for his service to the Audit Committee.

ADJOURNMENT

There being no further business, Chair Harnik adjourned the Audit Committee meeting at 11:30 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 3
REPORT**

Southern California Association of Governments
Remote Participation Only
April 28, 2021

To: Audit Committee (AC)
From: Cindy Giraldo, Chief Financial Officer
(213) 630-1413, giraldo@scag.ca.gov
Subject: Fiscal Year 2020-21 Briefing from Financial Auditors

**EXECUTIVE DIRECTOR'S
APPROVAL**

RECOMMENDED ACTION:
Information Only – No Action Required

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

EXECUTIVE SUMMARY:
SCAG's external financial auditors will present their plans for the 2020-2021 financial audit.

BACKGROUND:
SCAG's external independent auditors, Eide Bailly, have started audit work on SCAG's FY 2020-21 financial statements. Eide Bailly plans to complete the audit and report the results to the Committee in November or December 2021. Roger Alfaro, Partner with Eide Bailly, will present the audit plan to the Audit Committee.

FISCAL IMPACT:
None

ATTACHMENT(S):
1. PowerPoint Presentation - SCAG 2021 Planning

SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS



Planning Communication to those
Charged with Governance
April 28, 2021



AUDIT SCOPE

Perform the audit of the:

- Annual Comprehensive Financial Report (ACFR).
- 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 understanding the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing and extent of further audit procedures:

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



OUR RESPONSIBILITY

Communicate other matters:

- 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.

5

PLANNED SCOPE AND TIMING

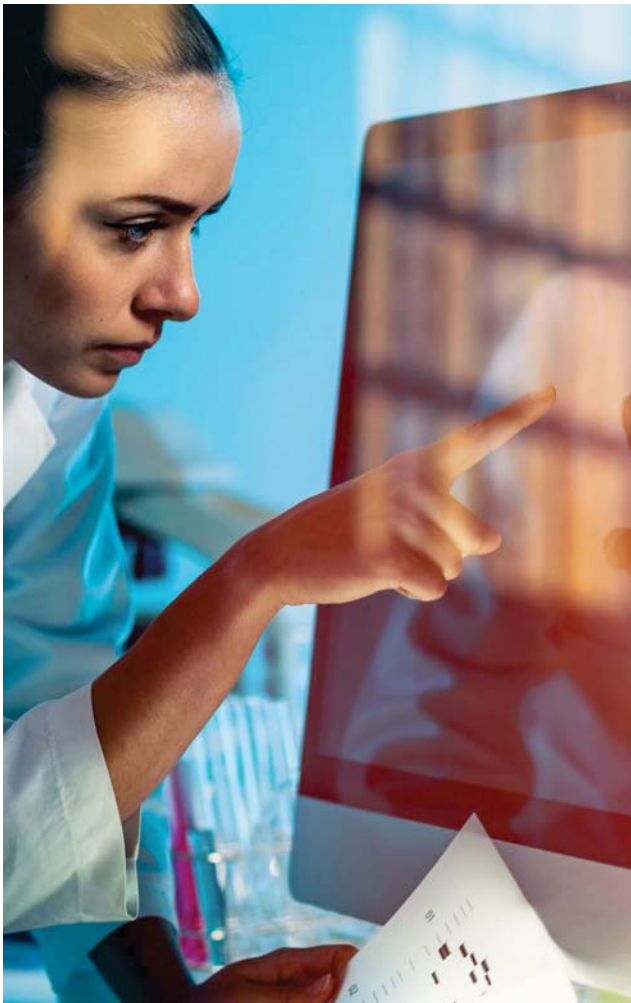


MANAGEMENT'S RESPONSIBILITIES

- 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.



7



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.
- Understand the design and implementation of internal control.
- Prepare risk assessment and audit plan.
- Conduct periodic status meetings throughout fieldwork.
- Single Audit – 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
- GASB 94 – Public-Private and Public-Public Partnerships and Availability Payment Arrangements
- GASB 96 – Subscription-Based Information Technology Arrangements





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
909.466.4410



CPAs & BUSINESS ADVISORS



AGENDA ITEM 4
REPORT

Southern California Association of Governments
Remote Participation Only
April 28, 2021

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

**EXECUTIVE DIRECTOR'S
APPROVAL**

RECOMMENDED ACTION:
Information Only – No Action Required

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

EXECUTIVE SUMMARY:
At the February 3, 2021 meeting, staff provided an update regarding the Caltrans Corrective Action Plans, Continuing Process Improvement and the Enterprise Project Management Office. 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 - One Outstanding Response Due from Caltrans**
As of the February 3, 2021 Audit Committee meeting, SCAG was waiting on one outstanding response due from Caltrans regarding the under-recovery of indirect costs in the amount of \$598,332 as of June 30, 2017 and we anticipate closure on this item in the next few months. In the meantime, SCAG has assumed closure in the draft Fiscal Year 2021-2022 budget which requires Caltrans approval prior to the beginning of the new fiscal year.

 - B. **Enterprise Project Management Office and Continuing Process Improvement**
The EPMO was established in May 2020 with the hiring of a Lead Projects Manager who is on a rotational developmental assignment from the Planning Division through May 7, 2021. The Lead Projects Manager reports to the Executive Director's Office through Debbie Dillon, Chief Strategy Officer. The EPMO works closely with the Planning Division which is also in the process of staffing up its project delivery team. The rotational assignment is concluding on May 7th and an internal/external recruitment will be conducted to fill the EPMO position
-

full-time. Key qualities being sought are experience and expertise in enterprise wide-process improvement, certification as a Project Management Professional from the Project Management Institute as well as proven project management expertise and experience.

Additional improvements or activities that have taken place or are in process since the February 3, 2021 Audit Committee include the following:

1. The Lead Projects Manager completed an assessment of the maturity of various project management practices by conducting a survey, researching best practices and holding focus groups. The executive summary is being circulated to SCAG divisions for review and input. The final executive summary will be shared with management for input then the agency staff. The assessment results will be a basis for the EPMO candidate to formulate a work plan.
2. Staff continues to implement a project management planning template that was developed by a consultant. The EPMO helped identify superusers throughout the agency who received training as additional support within business units. Training on the template was provided to all project managers in January and the template is in use. At a future meeting staff plans to provide information on the impact of implementing the template.
3. The EPMO continues to assist the Finance business units with educating staff and streamlining access to various existing tools and training. The project management training implemented in November 2019 is being updated to reflect changes and will be re-presented to staff as well as recorded and made available on demand through SCAG's intranet.
4. With the hiring of a new Chief Financial Officer (CFO), the EPMO established a new committee focused on additional improvements to the procurement process. This team began meeting weekly in November and in addition to the updated Procurement Manual implemented in February 2021, it has focused on streamlining the procurement process including revisions to the pre-award/contracts negotiation process. Whereas previously this review/negotiation was completed by SCAG's internal auditor, it has now been transitioned to the procurement department to be completed by the contract administrator. Consistent with prior practice, the Finance Division will continue to report on the success of these reviews and negotiations as part of the quarterly Audit Committee status report.
5. The CFO and Manager of Contracts recently joined a stakeholder review group that assists the Caltrans Local Assistance Program with future updates to its Local Assistance Procedures Manual which is a resource for SCAG in administering the projects funded through Caltrans. By becoming members of this group, SCAG will have the opportunity to provide

comments/feedback prior to the adoption of future updates. Thus, giving SCAG a voice in the formation of policies and procedures that directly impact our ability to serve our stakeholders. Caltrans' Local Assistance Program oversees more than one billion dollars annually available to over 600 cities, counties and regional agencies for the purpose of improving their transportation Infrastructure or providing transportation services. This funding comes from various Federal and State programs specifically designed to assist the transportation needs of local agencies. Annually, over 1,200 new projects are authorized through the Local Assistance Program of which approximately 700 are construction projects.

6. Additionally, SCAG continues to move away from Cost-Plus-Fixed Fee contracts and toward Lump Sum format, when appropriate. Of the 19 active procurements as of April 9, 2021, nine or 47.37%, were structured as Lump Sum contracts with milestone or progress payments. That payment structure requires less administration and is more attractive to potential bidders as long as the scope of work in the Request for Proposals is drafted with enough specificity. Contracts is working with Project Managers to develop each new scope of work to that level to maximize the number of Lump Sum contracts.

FISCAL IMPACT:

SCAG is awaiting resolution of the under recovery in the amount of \$598,332 as of June 30, 2017 and we anticipate closure on this item in the next few months as noted above.



**AGENDA ITEM 5
REPORT**

Southern California Association of Governments
Remote Participation Only
April 28, 2021

To: Audit Committee (AC)
From: Cindy Giraldo, Chief Financial Officer
(213) 630-1413, giraldo@scag.ca.gov
Subject: Internal Audit Status Report

EXECUTIVE DIRECTOR'S
APPROVAL

RECOMMENDED ACTION:

Information Only – No Action Required

STRATEGIC PLAN:

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

EXECUTIVE SUMMARY:

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

- *Staff is working with Eide Bailly on the commencement of the FY 2020-21 audit, which is scheduled to begin in May.*
- *SCAG will extend the external audit contract with Eide Bailly for an additional two-year term. With the final fiscal year under audit by Eide Bailly planned for FY 2022-23.*
- *A draft of a new SCAG policy on labor charging practices has been completed. This policy will be reviewed by SCAG senior management and be distributed in draft form to SCAG staff for review and feedback prior to formal adoption.*
- *With the vacancy of the Internal Auditor position, the responsibility of completing pre-award reviews has been transitioned to the Contract Administrators within the Contracts department. Since our last Audit Committee meeting, an additional \$286,851 of savings have been achieved through this negotiation process.*

BACKGROUND:

SCAG is committed to integrity and accountability; internal audit provides value to SCAG's governing bodies and senior management as an independent source of objective advice and provides valuable risk management. SCAG is in the process of recruiting for a new Internal Auditor to fill the vacancy left by our previous Internal Auditor. Despite the vacancy of this position during past quarter, significant progress has continued in key areas.

A. FY 2020-21 Financial Audit

Eide Bailly and SCAG have already begun preparing for our FY 2020-21 financial audit with interim audit work scheduled to commence in May. Eide Bailly has provided SCAG financial staff the Prepared by Client List (PBC), which is a list of requested financial reports and supporting documentation. Work toward the completion and compilation of all requested items is well underway.

B. Contract Extension with Eide Bailly

SCAG initially contracted with Eide Bailly (formerly known as Vavrinek, Trine & Day) for an initial three-year term commencing with the audit of FY 2015-16 financials. Eide Bailly was chosen as the best service and value provider following a formal Request for Proposal (RFP) process. Following the completion of the initial 3-year term, SCAG elected to renew with Eide Bailly for an additional two-year term. The fifth year under audit by Eide Bailly will be the audit of FY 2020-21.

According to Government Finance Officers Association (GFOA), auditor procurement best practices states: "Governmental entities should enter into multiyear agreements of at least five years in duration when obtaining the services of independent auditors." Among the factors listed in support of this policy is that this practice allows for greater continuity and helps to minimize the potential for disruption in connection with the independent audit.

In compliance with the GFOA best practice recommendation, and assuming favorable terms can be reached, staff will seek to renew with Eide Bailly for a maximum of 2 additional service years. A formal RFP process for the selection of new external auditors will be completed during FY 2022-23.

C. Labor Charging Policy

As reported during the last Audit Committee meeting, the development of a labor charging policy has been identified as a priority for SCAG. A labor charging policy will provide clear guidance to all staff on expectations and procedures for the accurate and timely reporting of labor costs. Through this policy, SCAG will be able to help ensure the accurate charging of labor costs across active projects, thus facilitating improved project cost management. Further, accountability will be heightened as reviews will be performed by the SCAG Internal Auditor to ensure compliance with the documented policy and procedures.

A draft of the proposed labor charging policy has been completed. As the next step, this policy will be reviewed by SCAG senior management and then distributed in draft form to staff for review and feedback prior to formal adoption.

D. Pre-Award Review Update

As part of SCAG's procurement policies and procedures, SCAG staff completes detailed pre-award reviews on high dollar value consultant contracts. These reviews provide SCAG with a basis to

reduce the contract price through negotiations with the winning bidder. With the vacancy of the Internal Auditor position, the opportunity arose to evaluate the pre-award review process. While previously performed by the internal auditor, this responsibility has now been transitioned to the Contracts Department and is performed by Contract Administrators. While still under evaluation, the transition has thus far been successful with continued significant savings being achieved. Table 1 below shows the success Contract Administrators have achieved through the negotiation process.

Table 1: High-Value Contract Negotiation Results

Consultant Contract #	Firm	Proposal Amount	Final Negotiated Amount	Negotiated Savings
20-054-C01	Alta Planning	\$297,054	\$194,993	\$102,061
21-006-C01	PlaceWorks	\$152,980	\$152,980	\$0
21-016-C01	KTU&A	\$247,662	\$246,986	\$675
21-018-C01	University of California Riverside	\$171,000	\$151,146	\$19,854
21-022-C01	Mata Construction	\$51,390	\$48,820	\$2,570
21-026-C01	Cambridge Systematics	\$170,370	\$148,022	\$22,348
21-028-C01	KOA	\$367,412	\$228,069	\$139,343
TOTAL		\$1,457,867	\$1,171,016	\$286,851

E. Ethics Hotline Monitoring

As reported during our February 3, 2021 Audit Committee meeting, previous reports have been closed. There have been no new reports from the Ethics Hotline since the last Audit Committee Meeting.

FISCAL IMPACT:

None