



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

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County Transportation Authority

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Transportation  
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County

MEETING OF THE

AUDIT COMMITTEE

*Tuesday, August 14, 2018*  
*10:30 a.m. – 12:00 p.m.*

SCAG MAIN OFFICE  
900 Wilshire Blvd., Ste. 1700  
Policy Room B  
Los Angeles, CA 90017  
(213) 236-1800

**TELECONFERENCE AND VIDEOCONFERENCE**  
**WILL BE AVAILABLE**

If members of the public wish to review the attachments or have any questions on any of the agenda items, please contact Carmen Summers at (213) 236-1984 or via email at [summers@scag.ca.gov](mailto:summers@scag.ca.gov). Agendas & Minutes for the Audit Committee 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) 236-1908. 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.

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**List of Audit Committee Members Participating at SCAG Offices\*  
and Other Meeting Locations**

Date: Tuesday, August 14, 2018  
Time: 10:30AM – 12PM  
Location: SCAG Main Office  
900 Wilshire, Suite 1700 – Policy Room B  
Los Angeles, CA 90017

**LIST OF MEMBERS**

**MEETING LOCATIONS**

- |   |   |
|---|---|
| 1. <b>Hon. Randon Lane, Chair</b><br><i>City of Murrieta, District 5</i>  | 900 Wilshire, Suite 1700<br>Los Angeles, CA 90017*  |
| 2. <b>Hon. Alan D. Wapner</b><br><i>City of Ontario, SBCTA</i>            | Ontario City Hall<br>303 East B Street<br>Ontario, CA 91764   |
| 3. <b>Hon. Bill Jahn</b><br><i>City of Big Bear Lake, District 11</i>     | 211 S. 3rd Street<br>McCall, Idaho 83638  |
| 4. <b>Hon. Margaret E. Finlay</b><br><i>City of Duarte, District 35</i>   | 2221 Rim Road<br>Duarte, CA 91008   |
| 5. <b>Hon. Sean Ashton</b><br><i>City of Downey, District 25</i>          |   |
| 6. <b>Hon. Jim Hyatt</b><br><i>City of Calimesa, District 3</i>           | 900 Wilshire, Suite 1700<br>Los Angeles, CA 90017*  |
| 7. <b>Hon. Clint Lorimore</b><br><i>City of Eastvale, District 4</i>      | 3403 10th Street, Suite 805*<br>Riverside, CA 92501 ***   |
| 8. <b>Hon. Steve Manos</b><br><i>City of Lake Elsinore, District 63</i>   | Lake Elsinore City Hall - Conference Room B<br>130 S Main Street<br>Lake Elsinore, CA 92530                         |
| 9. <b>Hon. Ray Marquez</b><br><i>City of Chino Hills, District 10</i>     | Chino Hills Government Center<br>14000 City Center Drive, 2nd Floor<br>City Council Office<br>Chino Hills, CA 91709 |
| 10. <b>Hon. Fred Minagar</b><br><i>City of Laguna Niguel, District 12</i> | Minagar & Associates, Inc.<br>23272 Mill Creek Drive, Suite 240W<br>Laguna Hills, CA 92653 ***                      |



## List of Audit Committee Members Participating at SCAG Offices\* and Other Meeting Locations

Date: Tuesday, August 14, 2018

Time: 10:30AM – 12PM

Location: SCAG Main Office

900 Wilshire, Suite 1700 – Policy Room B

Los Angeles, CA 90017

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### LIST OF MEMBERS

11. **Sup. Linda Parks**  
*Ventura County*
12. **Hon. Carmen Ramirez**  
*City of Oxnard, District 45*
13. **Hon. Ali Saleh**  
*City of Bell, District 27*
14. **Hon. Marty Simonoff**  
*City of Brea, District 22*
15. **Hon. Cheryl Viegas-Walker**  
*City of El Centro, District 1*

### MEETING LOCATIONS

- 625 West Hillcrest Drive  
Thousand Oaks, CA 91360
- 900 Wilshire, Suite 1700  
Los Angeles, CA 90017\*
- Brea Civic and Cultural Center  
1 Civic Center Circle  
Brea, CA 92821
- 1405 North Imperial Avenue, Suite 1  
El Centro, CA 92243\*



## AUDIT COMMITTEE AGENDA

Southern California Association of Governments

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900 Wilshire Boulevard, Suite 1700  
Los Angeles, California 90017  
**Tuesday, August 14, 2018**  
**10:30 a.m. to 12:00 p.m.**

*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 Randon Lane, Chair)*

### **ROLL CALL**

### **PUBLIC COMMENT PERIOD**

Members of the public desiring to speak on items on the agenda, or items not on the agenda, but within the purview of the Committee, must fill out and present a Public Comment Card to the committee staff prior to speaking. Comments will be limited to three (3) minutes per speaker. The Chair has the discretion to reduce the time limit based upon the number of speakers and may limit the total time for all public comments to twenty (20) minutes.

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

### **SELECTION OF VICE CHAIR**

### **CONSENT CALENDAR**

**Time**

**Page No.**

#### **Approval Item**

1. Minutes of the March 20, 2018 Meeting **1**

### **ACTION/DISCUSSION ITEM**

2. Annual Internal Audit Plan **15 mins** **5**  
*(Joshua Margraf, Internal Auditor)*

**Recommended Action:** Review and approve the fiscal year 2018-2019 (FY2018-19) audit plan.

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<u>INFORMATION ITEMS</u>	<u>Time</u>	<u>Page No.</u>
3. <u>Internal Audit – Roles and Responsibilities</u> <i>(Joshua Margraf, Internal Auditor)</i>	10 mins	9
4. <u>Petty Cash Review</u> <i>(Joshua Margraf, Internal Auditor)</i>	20 mins	15
5. <u>Internal Audit Status Report</u> <i>(Joshua Margraf, Internal Auditor)</i>	15 mins	21

FUTURE AGENDA ITEM/S

ANNOUNCEMENT/S

ADJOURNMENT

*The next regular meeting of the Audit Committee is scheduled for Tuesday, November 13, 2018, at the Wilshire Grand Center, 900 Wilshire Boulevard, Suite 1700, Los Angeles, CA 90017.*

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Audit Committee  
**of the**  
Southern California Association of Governments

March 20, 2018

***Minutes***

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

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

**Members Present**

Hon. Bill Jahn, Big Bear Lake, **(Chair)**  
Hon. Alan Wapner, Ontario  
  
Hon. Glen Becerra, Simi Valley  
Hon. Jeff Giba, Moreno Valley  
Hon. Michele Martinez, Santa Ana  
  
Hon. Ray Marquez, Chino Hills  
Hon. Greg Pettis, Cathedral City  
Hon. Cheryl Viegas-Walker, El Centro  
**(Vice-Chair)**  
Hon. Edward H. J. Wilson, Signal Hill

**Representing**

District 11, 2<sup>nd</sup> Vice President  
SBCTA/SBCOG, 1<sup>st</sup> Vice-President  
(Via Teleconference)  
District 46 (Via Teleconference)  
District 69 (Via Videoconference)  
District 16, SCAG Imm. Past President  
(Via Teleconference)  
District 10 (Via Teleconference)  
District 2 (Via Teleconference)  
District 1, SCAG (Via Teleconference)  
  
Gateway Cities COG  
(Via Teleconference)

**Members Not Present**

Hon. Margaret Finlay, Duarte  
Hon. Joe Buscaino, Los Angeles

District 35, SCAG President  
District 62

**CALL TO ORDER & PLEDGE OF ALLEGIANCE**

Hon. Bill Jahn, Chair, called the meeting to order at 2:33 p.m. and asked Councilmember Cheryl Viegas-Walker to lead in the Pledge of Allegiance.

**ROLL CALL**

A formal roll call was taken at 2:36 p.m. and it was determined that a quorum was not present.

**PUBLIC COMMENT PERIOD**

None.

**REVIEW and PRIORITIZE AGENDA ITEMS**

Due to the absence of a quorum at the start of the meeting, Agenda Items Nos. 3, 4, and 5 were presented until a quorum was reached. A quorum was established at 3:10 p.m., at which time the Chair requested another roll call. The Audit Committee considered the remaining agenda items for action.

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Audit Committee  
**of the**  
Southern California Association of Governments

March 20, 2018

***Minutes***

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**CONSENT CALENDAR**

**Approval Item**

1. Minutes of the November 14, 2017 Meeting

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

AYES: Jahn, Becerra, Marquez, Martinez, Pettis, Viegas-Walker, Wapner and Wilson (8).  
NOES: None (0).  
ABSTAIN: Giba (1).

**ACTION/DISCUSSION ITEMS**

2. Internal Audit Charter

Joshua Margraf, Internal Auditor, provided a brief summary and background information on the Internal Audit Charter, which identifies the internal audit function's authority and responsibilities.

A MOTION was made (Viegas-Walker) and SECONDED (Giba) to approve the Internal Audit Charter with amended language. The motion was passed by the following roll call vote:

AYES: Jahn, Becerra, Giba, Marquez, Martinez, Pettis, Viegas-Walker, Wapner and Wilson (9).  
NOES: None (0).  
ABSTAIN: None (0).

**INFORMATION ITEMS**

3. Fiscal Year (FY) 2017-18 External Auditor Update

Joshua Margraf, Internal Auditor, introduced Roger Alfaro, Partner, Varinek, Trine, Day and Company, LLP (VTD), SCAG's outside independent auditors who presented the FY 2017-18 financial audit workplan.

Mr. Alfaro highlighted areas of the audit's scope, timing, and key areas of emphasis and responsibility, including internal controls, which would be sufficient to assess the risks of material misstatements to the financial statements.

Mr. Alfaro provided a presentation of VTD's work plan for SCAG's FY 2017-18 financial audit, which included some of the audit planning services below:



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Audit Committee  
of the  
Southern California Association of Governments

March 20, 2018

***Minutes***

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- Internal Control Evaluation and Testing;
- Preliminary Risk Assessment;
- Testing on Compliance and Internal Controls Required by Generally Accepted Governmental Auditing Standards (GAGAS); Reporting on Schedule of Expenditure of Federal Awards and on Compliance as required by the Single Audit Act;
- Preparation of the draft Comprehensive Annual Financial Report (CAFR);
- Review and confirm contingencies with legal counsel;
- Consider subsequent events, such as the GASB 75 adoption.

Mr. Alfaro reported that SCAG would receive a report on the Internal Controls and an Unmodified Opinion for its FY 2017-18 financial statements (CAFR), Single Audit and Compliance Report in the months of November/December, 2018.

Mr. Alfaro responded to comments and questions expressed by Committee member regarding additional testing on SCAG's new lease agreement, investment in furniture and other capital assets, as well as IT-related testing to be performed in this year's audit.

Mr. Alfaro concluded his presentation by asking the Committee to provide any additional audit requests or concerns to him directly using his contact information provided on the presentation.

The Committee thanked the audit team for a thorough audit presentation.

4. Internal Audit Status Report

Joshua Margraf, Internal Auditor, provided an overview of the Internal Audit Status Report which included updates on preaward reviews, updates of prior recommendations, and information gathered and identified as part of the annual risk assessment.

Mr. Margraf provided examples of potential areas that may improve the proposal review and selection process, the shared drives and separated employee access to SCAG systems, and the project management process. He noted that SCAG departments are diligently working to strengthen procedures, and that progress reports and updates will be provided to the Committee as SCAG moves forward with developing and updating agency-wide policies and procedures.

Debbie Dillon, Deputy Executive Director, clarified the internal audit's review regarding the "Separated Employee Access to SCAG Systems". She noted that separated employees did not have access to SCAG systems, however, there were some delays in deleting email accounts from the system.

Discussion ensued regarding project management to include managing staff as well as possible project management skills training.

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Audit Committee  
**of the**  
Southern California Association of Governments

March 20, 2018

***Minutes***

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Darin Chidsey, COO, commented that staff is currently taking an organization-wide approach to comprehensively review all of SCAG's policies and procedures, and that recommendations are forthcoming.

Debbie Dillon, Deputy Executive Director, noted that SCAG's Planning Director, Kome Ajise, has taken the lead in assessing the Planning Division, and is developing ideas and guidance for updating SCAG's policies and procedures for project management.

Staff commented that the Committee will be updated on the progress.

The Committee along with Executive Management expressed appreciation for a thorough report.

5. Ethics Hotline Update

Joshua Margraf, Internal Auditor, provided a brief update on the Ethics Hotline. He noted that SCAG continues to receive reports through its Ethics Hotline, and—as previously reported at the last Audit Committee meeting—SCAG has now developed a more comprehensive set of procedures for defined roles and responsibilities throughout the receipt of complaints via the Ethics Hotline report through close out.

Internal audit will continue to provide updates on the Ethics Hotline.

**FUTURE AGENDA ITEMS**

Staff was directed to report at the next Audit Committee a proposal for simplifying the CAFR format so that it is more manageable and user-friendly to the public.

**ANNOUNCEMENTS**

There were no announcements given.

**ADJOURNMENT**

*Hon. Bill Jahn, Chair, adjourned the meeting at 3:41 p.m. The next meeting of the Audit Committee will be held on Tuesday, June 12, 2018 at 2:30 p.m.*

**Minutes Approved by:**

Joshua Margraf, Internal Auditor

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Southern California Association of Governments  
900 Wilshire Blvd., Suite 1700, Los Angeles, CA 90017

**Agenda Item No. 2**  
**August 14, 2018**

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**To:** Audit Committee (AC)

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

**Subject:** Fiscal Year 2018-2019 (FY 2018-19) Internal Audit Plan

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**RECOMMENDED ACTION:**

Review and approve the fiscal year 2018-2019 (FY 2018-19) audit plan.

**EXECUTIVE SUMMARY:**

*The internal audit function developed its audit plan for FY 2018-19.*

**STRATEGIC PLAN:**

This item supports SCAG's Strategic Plan Goal 7B: Maximize Efficiency and Effectiveness in Resource Allocation to Maintain Adequate Working Capital, Appropriate Reserves, and Investments, and Utilize Resources in a Timely and Responsible Fashion.

**BACKGROUND:**

As per SCAG's Internal Audit charter, the internal audit function is required to develop an audit plan using a risk-based methodology. This plan is to be presented to the Audit Committee for review and approval on an annual basis. The FY 2018-19 internal audit plan takes into account resource constraints of the internal audit function (e.g. a single staff). It assumes annual total hours to be 2,080 (i.e. the number of hours in 52 workweeks of 40 hours).

The plan is based on prior audit work as well as a risk assessment using input from the Audit Committee and management. It also takes into account any findings from external audits (e.g. Caltrans and financial auditors). The plan reflects SCAG's strategic plan, in particular section 7B: "Maximize efficiency and effectiveness in resource allocation to maintain adequate working capital, appropriate reserves, and investments, and utilize resources in a timely and responsible fashion."

The internal audit plan, including hours, is flexible in that the Audit Committee and management priorities, as well as any risks stemming from audit work, can affect planned work. Preaward reviews are a key component of the internal audit function's workload, because SCAG relies considerably on consultants to help carry out its efforts.<sup>1</sup> As part of providing this service to the Contracts Department, work performed as part of preaward reviews has identified potential areas that may help improve

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<sup>1</sup>Preaward reviews are done after SCAG selects a consultant proposal, but prior to executing a contract. They help identify whether consultants' proposed rates are reasonable, allocable, and allowable, as well as identify any potential risks that may be posed by a consultant. SCAG's internal audit function has traditionally performed the preaward reviews.

the proposal review and selection process.<sup>2</sup> Based on discussions with management staff, project management has been identified as high risk given lack of detailed guidance for staff in the form of policies and procedures. The internal audit function would like to review processes and procedures SCAG has in place for contract monitoring, so as to ensure agency funds are being used effectively and efficiently (e.g. in compliance with contract terms). With regard to IT, the internal audit function plans to work with SCAG’s Chief Information Officer (CIO) to identify areas of risk, but would like to focus on application controls related to SCAG’s main accounting software. In the past, the internal audit function has performed reviews of various controls, such as travel expenses, because they are relatively straightforward and require little audit hours as well as provide some assurance over how funds are used at a lower level (e.g. staff expenses). Table 1 provides the estimated hour breakdown for the proposed plan.

**Table 1: Proposed Internal Audit Plan FY 2018-19**

#	Topic Area	Hours <sup>a</sup>
1.	Preaward Reviews	400
2.	Project Management	350
3.	Procurement	220
4.	Assist - External Audits	140
5.	IT Controls - Accounting	130
6.	Staff Functions (Staff and Regional Council Meetings)	130
7.	Ethics Hotline Monitoring	120
8.	Non-work Time	120
9.	Various Controls – Petty Cash, Payroll Rates, Travel Expenses, etc.	100
10.	Risk Assessment and Internal Audit Plan	100
11.	Audit Committee Meetings	90
12.	Training to Maintain Certifications	80
13.	Assist - Policy and Procedures Updates	60
14.	Assist - Subrecipient Monitoring	40
<b>Total</b>		<b>2,080</b>

<sup>a</sup>Internal audit function hours are indirect – all are charged to 810-0120.14. Variance time is charged based on the type (e.g. holiday, vacation, etc.).

Below is more information on topic areas listed in Table 1, including planned reviews the internal audit function plans to undertake.

**Planned Reviews (#s 2, 3, 5, 9)**

Project Management

*Review of Consultant Monitoring Procedures and Processes* - determine extent to which SCAG monitors contracts to ensure consultant compliance with contract terms (e.g. timely invoicing, when contract tasks are completed, and number of amendments, among other things) as well as how consultant work affects achievement of SCAG projects.

<sup>2</sup>These include calculation errors in budget materials that support consultant proposals. Also, several consultants have had difficulty providing support that demonstrate they can meet contract requirements.

*Review of How SCAG Manages Staff Effort* – determine how SCAG develops staff hours for projects listed in the agency’s Overall Work Plan (OWP), to include what guidance they are using and how SCAG ensures compliance with funding source requirements.<sup>3</sup>

#### Procurement

*Review of Contracts under Preaward Threshold* – determine extent of review given to consultant proposals under the preaward threshold prior to proposal selection and contract execution.

#### IT Controls - Accounting

*Review of Accounting System Controls* – identify IT controls SCAG has in place for its main accounting system, to include how access is administered and transactions are monitored, among other things.

#### Various Controls

*Review of Employee Travel Expenses* –determine whether travel expenses incurred and funds spent were processed in compliance with agency policies and procedures, as well as ascertain any risks associated with employee travel expenses.

*Review of Payroll Rates* – determine if employee current pay rates are in agreement with Human Resources (HR) files, and the extent to which any variances exist.

*Review of Petty Cash* - determine if any discrepancies in petty cash amount recorded and cash on-hand exist as well as what, if any, risks are associated with the petty cash fund.

### **Other Services (#s 1, 4, 7, 10, 11, 13, 14)**

#### Preaward Reviews

The internal audit function assists the Contracts Department by performing preaward reviews of consultant proposals after a proposal is selected but prior to executing a contract. They help identify whether consultants’ proposed rates are reasonable, allocable, and allowable, as well as any risks that may be posed by a consultant. The number of preaward reviews requested can vary as it depends on the amount of proposals that come in.

#### External Audits

SCAG is undergoing an external audit by the California Department of Transportation (Caltrans). The agency also undergoes annual financial audits. The internal audit function assists external auditors by answering questions and coordinating responses on some topics. It also helps with coordinating site visits by the external auditors. It is expected that the Caltrans audit will be completed in the near future with potential recommendations. As such, Internal Audit plans to assist with the implementation of such recommendations.

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<sup>3</sup>The OWP is fundamentally a statement of proposed work and estimated costs that tie specific transportation planning activities to specific available funding sources. See <http://www.scag.ca.gov/about/Pages/Overall%20Work%20Program.aspx> for a copy of SCAG’s most recent OWP.

#### Hotline Monitoring

Monitor and summarize any reports made to SCAG's Ethics Hotline. Includes performing preliminary fact-finding and investigations as necessary. Estimated hours based on number of reports made during the prior fiscal year.

#### Risk Assessment and Audit Plan

Perform annual organization-wide risk assessment as well as audit plan based on said risk assessment as well as prior audit work.

#### Audit Committee Meetings

Preparation for Audit Committee meetings (typically one meeting every quarter) that includes drafting audit reports, soliciting feedback from management and staff, and meeting with the Audit Committee chair prior to the meetings. In cases when individuals outside the agency (e.g. external auditors) present information, coordinate with them.

#### Policies and Procedures Updates

Assist as needed with any updates to SCAG policies and procedures. Past internal audit findings have indicated that SCAG lacks updated policies and procedures in some areas, such as project management. Although the internal audit function cannot draft agency policies and procedures due to independence impairments, it can suggest areas of consideration as well as best practices based on criteria such as internal control standards.

#### Subrecipient Monitoring

Assist Budget and Grants staff with subrecipient monitoring duties as needed, such as potential site visits.

#### **Personnel (#s 6, 8, 12)**

Includes time related to (1) staff functions such as RC and staff meetings; (2) training required to maintain audit certifications; and (3) any holidays, vacation, or non-work time.

#### **RECOMMENDATION:**

We respectfully request that you review and approve the proposed Internal Audit Plan.

#### **FISCAL IMPACT:**

None

#### **ATTACHMENT/S:**

None

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Southern California Association of Governments  
900 Wilshire Blvd., Suite 1700, Los Angeles, CA 90017

**Agenda Item No. 3**  
**August 14, 2018**

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**To:** Audit Committee (AC)

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

**Subject:** Internal Audit – Roles and Responsibilities

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**RECOMMENDED ACTION:**

For Information Only – No Action Required.

**EXECUTIVE SUMMARY:**

*This report introduces the roles and responsibilities of SCAG's internal audit function.*

**STRATEGIC PLAN:**

This item supports SCAG's Strategic Plan Goal 7B: Maximize Efficiency and Effectiveness in Resource Allocation to Maintain Adequate Working Capital, Appropriate Reserves, and Investments, and Utilize Resources in a Timely and Responsible Fashion.

**BACKGROUND:**

The *Internal Audit Charter*, approved by the Audit Committee in March 2018, establishes the internal audit function's position within SCAG, to include reporting relationships with the Audit Committee and management (see attachment 1 for a copy of the charter). The internal audit function reports functionally to the Regional Council and administratively (i.e. day to day operations) to SCAG's Chief Operating Officer (COO). The Regional Council provides oversight of the internal audit function through the Audit Committee. These reporting relationships are shown in attachment 2. The internal audit function consists of one staff member.

Internal Audit is tasked with providing the Regional Council and members of SCAG management independent analyses, appraisals, findings, and recommendations regarding effectiveness and efficiency of various SCAG operations. Further, Internal Audit is tasked with evaluating SCAG's governance, risk management, and essential internal controls. Examples of past audit work include a review of physical controls related to SCAG's IT assets, a review on contract closeout procedures, and a review of extended warranties and software agreements, among other things. In addition, Internal Audit assists Contracts by performing preaward reviews of consultant proposals. These reviews identify whether consultants' proposed rates are reasonable, allocable, and allowable, as well as any risks that may be posed by a consultant. Internal Audit also monitors SCAG's Ethics Hotline.

Upcoming audit work is listed in the annual audit plan, (Agenda Item No. 2 in today's Agenda packet). Planned audits are based on prior audit work as well as a risk assessment using input from

the Audit Committee and management. The annual audit plan is flexible in that if high risks are uncovered or identified during the course of the fiscal year (e.g. from an external audit, Regional Council priorities, management requests, etc.), Internal Audit can re-focus audit efforts.

In carrying out its responsibilities, Internal Audit follows U.S. Generally Accepted Government Auditing Standards (GAGAS) as issued by the Government Accountability Office as well as other professional internal audit standards as promulgated by Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.<sup>1</sup>

**RECOMMENDATION:**

None

**FISCAL IMPACT:**

None

**ATTACHMENT:**

- (1) Internal Audit Charter
- (2) SCAG Organizational Chart

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<sup>1</sup>U.S. Government Accountability Office (GAO), Government Auditing Standards 2011 Revision, GAO-12-331G, (Dec. 2011), and Institute of Internal Auditors (IIA), *International Standards for the Professional Practice of Internal Auditing (Standards)* (Jan. 2017). GAO recently completed updates to GAGAS on July 17, 2018. However, 2018 revisions become effective for financial audits, attestation engagements, and reviews of financial statements for periods ending on or after June 30, 2020, and for performance audits beginning on or after July 1, 2019. Therefore the internal audit function will continue to use the 2011 version of GAGAS until the dates revisions become effective.



## SCAG INTERNAL AUDIT CHARTER

### INTRODUCTION

Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve operations. It assists in accomplishing an organization's objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, internal control.

### POLICY

The Southern California Association of Governments (SCAG) will provide and support an internal audit function to perform independent assessments of SCAG operations, including evaluations of the effectiveness and efficiency of various departments and functions and evaluating governance, risk management, and essential internal controls.

### OBJECTIVE

The internal audit function will assist all members of management in efficient and effective discharge of responsibilities by providing independent analyses, appraisals, findings, and recommendations.

### PROFESSIONALISM

The internal audit function will adhere to U.S. Generally Accepted Government Auditing Standards (GAGAS) as issued by the Government Accountability Office as well as consult other professional internal audit standards as promulgated by Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. In cases where requirements from one set of standards are more restrictive, the internal audit function will conform to those that are more restrictive. If complete conformance with GAGAS is not feasible, the internal audit function will document such as part of its audit work.

### AUTHORITY

The internal audit function derives its authority from the Regional Council, Executive Director and Chief Operating Officer (COO), and is authorized to conduct engagements of any department system or function as necessary to accomplish its objectives. The internal audit function, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of SCAG records, physical properties, and personnel pertinent to carrying out any engagement.

The internal audit function is charged with the responsibility to perform independent assessments of fiscal, operational, and administrative systems. However, services of the internal audit function are a staff function; the position has neither authority over, nor responsibility for, any activities audited or reviewed.

### ORGANIZATION

The internal audit function will report functionally to the Regional Council and administratively (i.e. day to day operations) to the COO.

The Regional Council provides oversight of the internal audit function through its Audit Committee. As part of its responsibilities, the Audit Committee will:

- Review the charter, plans, activities, staffing, and organizational structure of the internal audit function.
- Review and approve the internal audit function's annual workplan, including the nature and scope of the audits scheduled for the fiscal year.
- Receive and review draft internal audit reports.
- Ensure no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the internal auditor.
- Meet separately with the internal audit function on an as-needed basis to discuss any matters that the Audit Committee or internal audit believes should be discussed privately.

## **INDEPENDENCE AND OBJECTIVITY**

The internal audit function will remain free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

The internal audit function will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair internal auditor's judgment. In cases where the internal audit function is requested to assist in any activities or processes that could impact independence and objectivity, in appearance or in actuality, the audit function will indicate such.

The internal audit function will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. The internal audit function will make a balanced assessment of all relevant circumstances and not be unduly influenced by own interests or by others in forming judgments.

The internal audit function will confirm to the Audit Committee, at least annually, its organizational independence.

## **INTERNAL AUDIT PLAN**

The internal audit function will develop and internal audit plan based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Audit Committee.

## **RESPONSIBILITY**

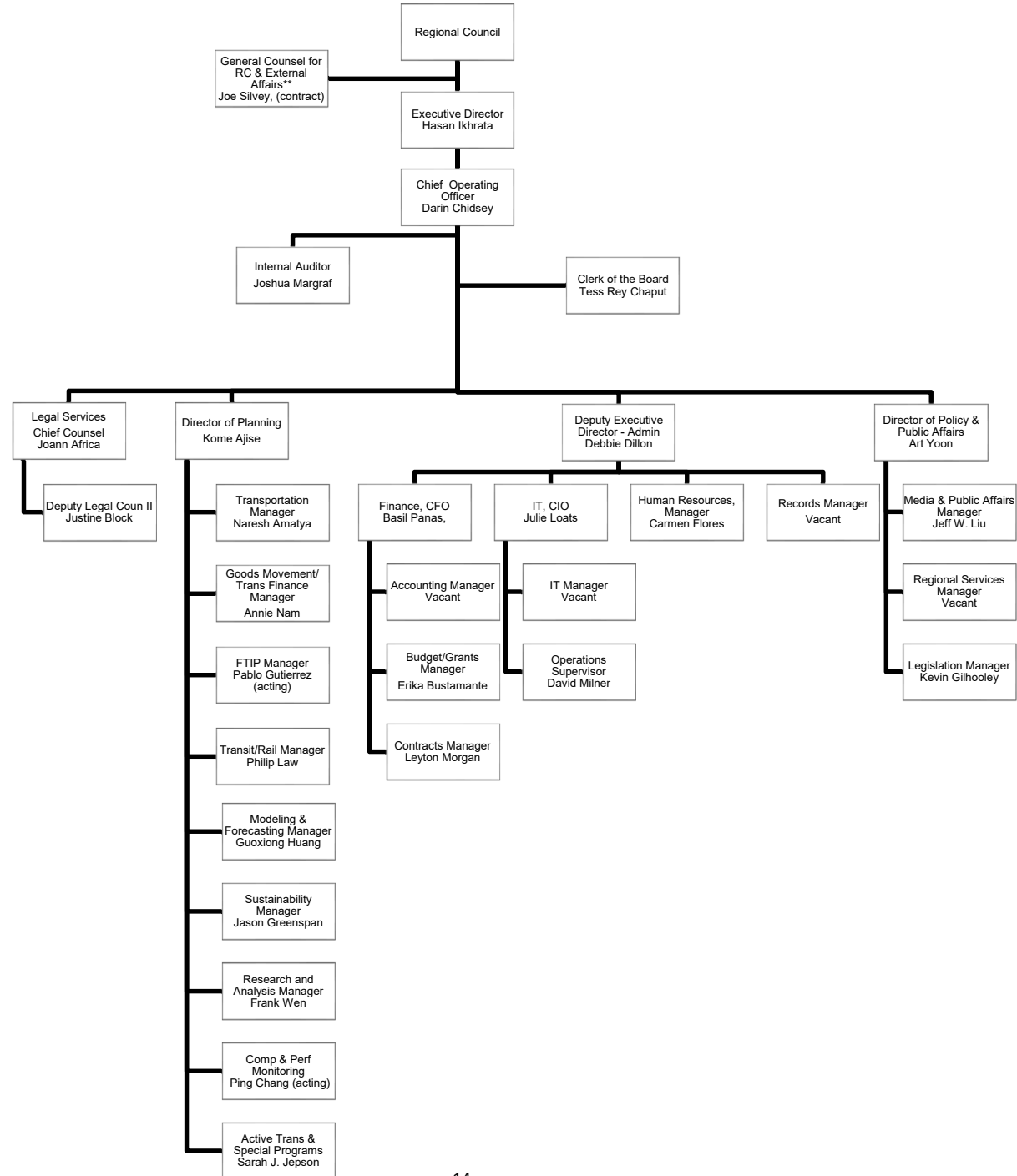
The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of SCAG's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve SCAG's stated goals and objectives.

- Develop a flexible annual audit plan, including any risks or control concerns identified by management or the Audit Committee.
- Determine compliance with SCAG fiscal policies and regulations regarding revenue, expenses, budgets, contracts, lease compliance, subregions, projects and programs.
- Evaluate the efficiency, effectiveness and economy of SCAG operations, including the safeguard of SCAG assets.
- Provide the Audit Committee with timely reports of audit findings, analyses, and recommendations designed to strengthen and improve internal control and performance results.
- Perform special assignments as directed by the Regional Council, Executive Director, or Chief Operating Officer.
- Direct, manage, plan and perform internal audits including operational, compliance, and financial audits of all SCAG activities.
- Prepare audit plans for internal audits; conduct appropriate follow-up research, prepare analysis and work papers to document audit work product and write audit reports.
- Participate in the development and implementation of new or revised SCAG audit programs, systems, procedures and methods of operation.

- Report all cases of actual or suspected loss, theft, misappropriation or misuse of SCAG monies or property immediately to the Chief Counsel and Chief Operating Officer.
- Review and coordinate any requests by outside agencies to conduct audits, which includes, but is not necessarily limited to, federal, state, county, or others with a contractual right to audit.

END OF CHARTER

# SCAG Organization Chart – June 2018



\* Report to Audit Committee  
 \*\* Takes direction from the Regional Council

Southern California Association of Governments  
900 Wilshire Blvd., Suite 1700, Los Angeles, CA 90017

**Agenda Item No. 4**  
**August 14, 2018**

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**To:** Audit Committee (AC)

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

**Subject:** Petty Cash Review

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**RECOMMENDED ACTION:**

For Information Only – No Action Required.

**EXECUTIVE SUMMARY:**

***Internal Audit conducted a review of the petty cash fund.***

**STRATEGIC PLAN:**

This item supports SCAG's Strategic Plan Goal 7B: Maximize Efficiency and Effectiveness in Resource Allocation to Maintain Adequate Working Capital, Appropriate Reserves, and Investments, and Utilize Resources in a Timely and Responsible Fashion.

**BACKGROUND:**

Accounting staff have access to and maintain the petty cash fund, including disbursement records. The petty cash fund amount is \$1,000, is to be used for facilitating nonrecurring purchases of \$150 or less.<sup>1</sup> As per the *SCAG Accounting Manual*, petty cash advances can be made only when approved by a manager or his/her superior, and proof of payment must be submitted within 48 hours with the receipt of the advance being destroyed and replaced by receipt for the actual amount.<sup>2</sup>

The Accounting department requested that Internal Audit review the petty cash fund.<sup>3</sup> Internal Audit reviewed the petty cash fund on July 19, 2018. The review included counting on-hand cash; comparing on-hand cash with petty cash fund records; and verifying disbursement amounts with the records. The objective of the review was to determine if there were any discrepancies in the amount recorded and cash on-hand as well as what, if any, risks are associated with the petty cash fund.

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<sup>1</sup>SCAG, *Accounting Manual*, May 18, 2017.

<sup>2</sup>Ibid. Section 5.11.

<sup>3</sup>Internal Audit previously reviewed the petty cash fund in May 2016 and reported findings to the Audit Committee in June 2016. This review found no differences between cash on-hand and petty cash fund records. Also, all disbursements were recorded correctly. At that time, Internal Audit recommended that time frames for submitting receipts and/or other supporting documentation be stated on the petty cash voucher form or other appropriate document, so as to be clearly communicated to employees, among other things.

**RESULTS:**

Internal Audit completed the review on July 19, 2018. The review included 11 transactions from April 26 through June 19. Of these transactions, four were cash advances and two did not have receipts (in lieu of receipt, SCAG staff e-mailed an explanation to Accounting staff and annotated a receipt of another petty cash transaction). No differences were found between cash on-hand and petty cash fund records. All disbursements seemed to be recorded correctly.

Although relatively immaterial in amount (the petty cash fund is \$1,000), Internal Audit noted some areas of potential risk associated with petty cash after speaking with Accounting staff. These include:

- Petty cash fund used for cash advances rather than re-imbursements for regularly scheduled (i.e. recurring) events such as Regional Council meetings and staff meetings. In four instances, receipts were provided after the disbursement date as a result of cash advances used to purchase items for the events; receipts were submitted after each event. Accounting staff noted that receipts are usually provided in a timely fashion, but there are times when it can take a while for receipts to come in. Further, there is no mechanism in place to force staff to provide receipts in a timely manner. The records reviewed indicated a voucher date and receipt date for individual requests, but do not show when the receipts were submitted.
- The petty cash form lacks clear indication of whether a request is an advance or not. Although the form requires a description of the request's purpose, none of the descriptions in the forms reviewed clearly indicated that the funds were a cash advance. Though in one instance, comparing the date of the request with the purpose showed it was an advance (the request was made on June 6 for lunch on June 7). Accounting staff noted that if the initial amount requested on the form is crossed-out and replaced by a different amount, the change indicates a cash advance.
- In instances where actuals are less than a cash advance amount, there is no mechanism to ensure the difference is returned to petty cash in a timely manner.
- No receipts required for tips. In two instances, an employee requested \$10.00 from petty cash to pay tips to a delivery man. The employee annotated a receipt by writing "\$10 tip" on the receipt, and in the second instance sent an e-mail to Accounting explaining that \$10.00 was used for a tip. Although the amounts are relatively small, other comparable amounts had a receipt for support. For instance, a hand soap purchase for \$6.65 and food purchase for \$11.00.

**CONCLUSION:**

No discrepancies were found with regard to cash on-hand and petty cash fund records. For the most part, all records had associated receipts. Although the amount of petty cash is relatively small, there are some potential risks, such as no clear identification of time frames for submitting receipts and returning differences associated with cash advances and actual expenditures.

**RECOMMENDATION:**

In the case of cash advances, the petty cash form should require that a transaction be noted as an advance on the form. Further, time frames (e.g. within 48 hours of a cash advance) for submitting receipts and/or other supporting documentation as well as returning any differences if actuals are less than the advance amount should also be indicated on the form.

**FISCAL IMPACT:**

None

**ATTACHMENT:**

- (1) Petty Cash Form
- (2) Section 5.11 of the SCAG Accounting Manual.



## Petty Cash Voucher

Date : \_\_\_\_\_

Employee Name: \_\_\_\_\_

Amount Requested: \$ \_\_\_\_\_

Amount in Words: \_\_\_\_\_

Purpose:

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**General Ledger #** \_\_\_\_\_ **Project/Task Combination#** \_\_\_\_\_

APPROVED BY:

CASH RECEIVED BY:

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Printed Name

Date: \_\_\_\_\_

Date: \_\_\_\_\_

Vendor # **30000565** Posted By: \_\_\_\_\_ Check No. \_\_\_\_\_ Date: \_\_\_\_\_

FB60# **19000** \_\_\_\_\_ Date: \_\_\_\_\_ Doc No. \_\_\_\_\_



## **SCAG Accounting Manual as of May 18, 2017**

### **5.11 Petty Cash Fund**

- 5.11.1 SCAG maintains a petty cash fund of \$1,000.00 for facilitating nonrecurring minor purchases of \$150.00 or less. These type purchases can be handled quickly and effectively rather than through the administrative process of preparing a check. Accountant III #2 has been assigned by the Chief Financial Officer (CFO) as the custodian of the petty cash fund.
  - 5.11.2 The petty cash fund is kept in a secure, locked location and under the control of the custodian of the fund. Original receipts must be retained to support all payments made from petty cash.
  - 5.11.3 All expenditures must be for SCAG related business, such as meeting expenses, books, maps, public transportation. Petty Cash cannot be used for purposes such as personal loans or expenses, cashing personal checks, or for travel expense reimbursement. If there is a change in the custodian from one staff member to another, the Manager of Accounting must validate and reimburse the fund to the full \$1,000 prior to the transfer of the petty cash fund to the new custodian.
  - 5.11.4 To obtain reimbursement for petty cash purchases the custodian shall request an original receipt(s) and the requestor should complete and sign a petty cash reimbursement form. The form includes the date of purchase, name of employee, description of item purchased, approval signature of the Director or Manager of the department, project number and cost category. If there is no receipt (public transportation, postage) the Director or Manager may approve the payment with a written statement by the employee to that effect.
  - 5.11.5 Petty cash advances will be made only when approved by a Manager or his/her superior. The petty cash recipient shall sign a petty cash receipt and submit proof of payment, and any change from the purchase, within 48 hours of returning to SCAG. The receipt for the advance will be destroyed and replaced by a receipt for the actual amount spent.
  - 5.11.6 Replenishment of the petty cash fund is done before the funds have been fully exhausted. To replenish petty cash funds, the custodian shall provide the Manager of Accounting with original receipts and all completed reimbursement forms. The total of funds disbursed plus the cash on hand should equal the \$1,000.00 authorized fund balance. The Manager of Accounting shall approve the replenishment of the petty cash fund.
  - 5.11.7 The replenishment check is made out in the name of the custodian. The custodian then cashes the check at his/her bank and places the money in the petty cash.
- 5.12 Vending Machine Receipts
- 5.12.1 SCAG has entered into a lease agreement for two vending machine companies, one for sodas and the other for snacks and candy.
  - 5.12.2 The lease agreement provides for SCAG to receive a commission, paid monthly in cash. These commissions provide funding for the Spirit Committee in the Human Resources Department.
  - 5.12.3 The Spirit Committee has a fund in the general ledger to account for the receipt and disbursement of vending machine receipts. The fund is 10008.

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Southern California Association of Governments  
900 Wilshire Blvd., Suite 1700, Los Angeles, CA 90017

**Agenda Item No. 5**  
**August 14, 2018**

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**To:** Audit Committee (AC)

**From:** Josh Margraf, Internal Auditor; (213) 236-1890;  
[margraf@scag.ca.gov](mailto:margraf@scag.ca.gov)

**Subject:** Internal Audit Status Report

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**RECOMMENDED ACTION:**

For Information Only – No Action Required.

**EXECUTIVE SUMMARY:**

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

**STRATEGIC PLAN:**

This item supports SCAG's Strategic Plan Goal 7B: Maximize Efficiency and Effectiveness in Resource Allocation to Maintain Adequate Working Capital, Appropriate Reserves, and Investments, and Utilize Resources in a Timely and Responsible Fashion.

**BACKGROUND:**

Since the last Audit Committee meeting in March 2018, Internal Audit has assisted the Contracts Department with preaward reviews, developed an annual audit plan, assisted with external audits, assisted with project management initiatives, and monitored SCAG's Ethics Hotline

A. *Preaward Reviews*

Internal Audit performed the following preaward reviews.

<u>Consultant (Contract Number)</u>	<u>Proposal Amount</u>	<u>Questioned Costs</u>	<u>Questioned Costs Sustained<sup>a</sup></u>
MIG (18-001-B37)	\$138,811	\$31,048	\$18,752
Steer Davies Gleave (18-015-C1)	\$349,223	\$22,173	\$22,173
Cambridge Systematics (18-016-C1)	\$231,864	\$14,937	\$5,010
The 20/20 Network (18-017A-C1)	\$390,460	\$32,319	-0-
Nelson Nygaard (18-018-C1)	\$150,112	\$30,000	\$46
KOA (18-020-C1)	\$335,799	-0-	-0-
Impact Sciences (18-026-C1)	\$892,017	\$243,676	\$171,196
ELA (18-031-C1)	\$854,153	\$365,435	\$83,132
ICF (18-032-C1)	\$299,827	\$17,327	\$5,302
Latino Health Access (18-034-C1) <sup>b</sup>	\$449,696	\$61,198	
Thirdwave (18-042-C1)	\$55,867	\$12,808	\$43,059
<b>Totals</b>	<b>\$4,147,829</b>	<b>\$830,921</b>	<b>\$348,670</b>

<sup>a</sup>Questioned costs are not always sustained for a variety of reasons, such as removal of subconsultants due to lack of support for proposed costs, shifting work to a prime consultant whose rates have been determined to be fair and reasonable, and consultants providing additional support to substantiate their rates after a preaward a review, but prior to negotiations, among other things.

<sup>b</sup>Final contract cost still being negotiated.

Preaward reviews of consultant proposals are based on a dollar threshold (\$250,000 or more) and/or a request from Contracts staff (typically if direct labor is \$100 per hour or more, if overhead exceed 150 percent, or if fringe is 50 percent or more). Internal Audit performs preaward reviews after SCAG selects a consultant proposal, but prior to contract execution. They help identify whether consultants' proposed rates are reasonable, allocable, and allowable, as well as identify any potential risks that may be posed by a consultant. They also inform and assist Contracts staff with negotiations.

Internal Audit also helped review consultant information submitted for various proposals.<sup>1</sup> This included procedures for verifying direct labor rates as well as indirect rates and other direct costs, among other things.

Internal Audit has noticed that questioned costs stemming from a preaward review tend to be the result of consultants not providing requested information to support proposal costs, typically due to a lack of understanding about both SCAG and government contracting requirements.<sup>2</sup>

Documentation requests to consultants are relatively straightforward, and the information requested should be readily available. SCAG has identified contracting and audit related requirements in its request for proposals (RFP). Further, the RFPs clearly indicate that consultants should be ready to provide supporting documentation, including payroll registers and indirect costs

<sup>1</sup>These included RFP 18-001-B21, RFP 18-001-B29, RFP 18-001-B38, and RFP 18-022.

<sup>2</sup>Requested documentation usually includes, time sheets, indirect rate calculations, and support for any other direct costs, among other things.

audits, among other things. Another avenue SCAG could leverage to highlight contracting requirements for consultants is its website that consultants can access.<sup>3</sup> This could be a resource SCAG staff can direct consultants to so they can be better prepared when submitting proposals.

#### *B. Annual Audit Plan*

SCAG's Internal Audit charter requires the internal audit function to develop an audit plan using a risk-based methodology. The fiscal year (FY) 2018-19 audit plan is discussed in a separate report, (Agenda Item No. 2). It is based on prior audit work and a risk assessment using input from the Audit Committee and management. The plan also takes into consideration any findings from external audits (e.g. financial auditors). A focus of the plan is project management, which has been identified as a risk area by staff and prior internal audit work.

#### *C. External Audits*

SCAG is undergoing concurrent external audits. Vavrinek, Trine, Day, and Company, LLP (VTD) is performing an audit on SCAG's FY 2017-18 financial statements. Caltrans is in the process of completing an incurred cost audit and audit of SCAG's indirect cost allocation plan (ICAP).

- Financial Statement Audit

SCAG's external independent financial auditors, VTD have started preliminary audit work for the audit of SCAG's FY 2017-18 financial statements. VTD plan to report audit results in November or December, 2018. This is the second year VTD is performing the financial statement audit. For FY 2016-17—VTD found that SCAG's financial statements were presented fairly in all material respects. The results of the FY 2016-17 financial statement audit can be found on SCAG's website.<sup>4</sup>

- Incurring Cost and ICAP Audits

Caltrans provided SCAG with a draft report on the incurred cost audit. Preliminary findings identified deficiencies with project management and contract administration. SCAG is in the process of responding to the incurred cost audit report's findings. Caltrans plans to provide SCAG with a draft report on the ICAP audit in the near future (likely end of August), at which time SCAG will provide written responses to any findings. Once both audits are complete, SCAG will provide the Audit Committee with the final findings and recommendations.

#### *D. Project Management*

As noted in prior reports, project management has been identified as a key risk area. SCAG is currently in the process of developing and updating policies and procedures for project management and contract administration. In addition, SCAG is in the process of selecting a consultant to assist with training staff on project management principles and techniques, to include reviewing SCAG's current project management processes and procedures as well as identifying opportunities for improvement. The effort will culminate in a new project management handbook that staff can consult during the course of their work to help ensure consistent operations. The time

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<sup>3</sup><http://www.scag.ca.gov/opportunities/Pages/BusinessWithSCAG.aspx?opentab=6>

<sup>4</sup><http://www.scag.ca.gov/Documents/FinancialReport063017.pdf>

frames for these efforts are approximately two months, with an anticipated start date of mid- to late August. Internal Audit plans to meet with the consultant and share past internal audit work and findings as needed.

*E. Ethics Hotline Monitoring*

SCAG has not received any reports via the Ethics Hotline since the last Audit Committee meeting on March 20, 2018. All prior reports have been reviewed and all cases have been closed.

**FISCAL IMPACT:**

None

**ATTACHMENT:**

None