



SOUTHERN CALIFORNIA
ASSOCIATION OF GOVERNMENTS
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REMOTE PARTICIPATION ONLY

AUDIT COMMITTEE

Wednesday, October 12, 2022
2:00 p.m. – 3:30 p.m.

To Attend and Participate on Your Computer:

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

To Attend and Participate by Phone:

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

Meeting ID: 316 673 359

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

PUBLIC ADVISORY

Given the declared state of emergency (pursuant to State of Emergency Proclamation dated March 4, 2020) and local public health directives imposing and recommending social distancing measures due to the threat of COVID-19, and pursuant to Government Code Section 54953(e)(1)(A), 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 Maggie Aguilar at (213) 630-1420 or via email at aguilarm@scag.ca.gov. Agendas & Minutes are also available at: www.scag.ca.gov/committees.

SCAG, in accordance with the Americans with Disabilities Act (ADA), will accommodate persons who require a modification of accommodation in order to participate in this meeting. SCAG is also committed to helping people with limited proficiency in the English language access the agency's essential public information and services. You can request such assistance by calling (213) 630-1420. We request at least 72 hours (three days) notice to provide reasonable accommodations and will make every effort to arrange for assistance as soon as possible.



Instructions for Public Comments

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

1. **In Writing:** Submit written comments via email to: ePublicComment@scag.ca.gov by **5pm on Tuesday, October 11, 2022**. You are **not** required to submit public comments in writing or in advance of the meeting; this option is offered as a convenience should you desire not to provide comments in real time as described below.

All written comments received after 5pm on Tuesday, October 11, 2022 will be announced and included as part of the official record of the meeting.

2. **In Real Time:** If participating in real time via Zoom or phone, during the Public Comment Period (Matters Not on the Agenda) or at the time the item on the agenda for which you wish to speak is called, 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. For purpose of providing public comment for items listed on the Consent Calendar, please indicate that you wish to speak when the Consent Calendar is called; items listed on the Consent Calendar will be acted on with one motion and there will be no separate discussion of these items unless a member of the legislative body so requests, in which event, the item will be considered separately.

If unable to connect by Zoom or phone and you wish to make a comment, you may submit written comments via email to: ePublicComment@scag.ca.gov.

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 (Matters Not on the Agenda) or at the time the item on the agenda for which you wish to speak is called (see note above regarding items on the Consent Calendar), 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. Each speaker is limited to oral comments totaling 3 minutes for all matters, or as otherwise directed by the presiding officer.

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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 (Matters Not on the Agenda) or at the time the item on the agenda for which you wish to speak is called (see note above regarding items on the Consent Calendar), 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. Each speaker is limited to oral comments totaling 3 minutes for all matters, or as otherwise directed by the presiding officer.

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AC - Audit Committee ***Members – October 2022***

- 1. Sup. Curt Hagman, Chair**
San Bernardino County Representative
- 2. Hon. Steve Manos**
Lake Elsinore, RC District 63
- 3. Hon. Ali Saleh**
Bell, RC District 27
- 4. Hon. Marty Simonoff, Vice Chair**
Brea, RC District 22
- 5. Hon. Cheryl Viegas-Walker**
El Centro, RC District 1
- 6. Hon. Alan Wapner**
SBCTA Representative
- 7. Hon. Edward Wilson**
Signal Hill, GCCOG

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AUDIT COMMITTEE AGENDA

Southern California Association of Governments
Remote Participation Only
Wednesday, October 12, 2022
2:00 PM

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

CALL TO ORDER AND PLEDGE OF ALLEGIANCE *(The Honorable Curt Hagman, Chair)*

PUBLIC COMMENT PERIOD (Matters Not on the Agenda)

This is the time for persons to comment on any matter pertinent to SCAG's jurisdiction that is *not* listed on the agenda. Although the committee may briefly respond to statements or questions, under state law, matters presented under this item cannot be discussed or acted upon at this time. Public comment for items listed on the agenda will be taken separately as further described below.

General information for all public comments: Members of the public are encouraged, but not required, to submit written comments by sending an email to: ePublicComment@scag.ca.gov by 5pm on Tuesday, October 11, 2022. Such comments will be transmitted to members of the legislative body and posted on SCAG's website prior to the meeting. Any writings or documents provided to a majority of the Audit Committee regarding any item on this agenda (other than writings legally exempt from public disclosure) are available at the Office of the Clerk, located at 900 Wilshire Blvd., Suite 1700, Los Angeles, CA 90017 during normal business hours and/or by contacting the office by phone, (213) 630-1420, or email to aguilarm@scag.ca.gov. Written comments received after 5pm on Tuesday, October 11, 2022, 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 in real time during the meeting will be allowed up to a total of 3 minutes to speak on items on the agenda, 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 equally reduce the time limit of all speakers based upon the number of comments received. If you desire to speak on an item listed on the agenda, please wait for the chair to call the item and then indicate your interest in offering public comment by either using the "raise hand" function on your computer or pressing *9 on your telephone. For purpose of providing public comment for items listed on the Consent Calendar (if there is a Consent Calendar), please indicate that you wish to speak when the Consent Calendar is called; items listed on the Consent Calendar will be acted upon with one motion and there will be no separate discussion of these items unless a member of the legislative body so requests, in which event, the item will be considered separately.



REVIEW AND PRIORITIZE AGENDA ITEMS

CONSENT CALENDAR

Approval Item

1. Minutes of the Meeting – July 27, 2022 PPG. 6

ACTION ITEMS

2. Consideration of Contract Approval Thresholds 20 Mins. PPG. 14
(Cindy Giraldo, Chief Financial Officer)

RECOMMENDED ACTION: That the Audit Committee discuss the proposed amendment to the Regional Council Policy Manual, increasing the Regional Council’s contract approval threshold to \$500,000 and the approval threshold for contract amendments to \$150,000 and 30%, and recommend that the Regional Council amend the Regional Council Policy Manual accordingly.

INFORMATION ITEMS

3. Internal Audit on Invoice Payments Report 20 Mins. PPG. 21
(David James, Internal Auditor)
4. Internal Audit Status Report 20 Mins. PPG. 31
(David James, Internal Auditor)

FUTURE AGENDA ITEMS

ANNOUNCEMENTS

ADJOURNMENT



Southern California Association of Governments
Remote Participation Only
October 12, 2022

AUDIT (AC) COMMITTEE
MINUTES OF THE MEETING
WEDNESDAY, JULY 27, 2022

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

The Audit Committee (AC) of the Southern California Association of Governments (SCAG) held its regular meeting virtually (telephonically and electronically), given the declared state of emergency (pursuant to State of Emergency Proclamation dated March 4, 2020) and local public health directives imposing and recommending social distancing measures due to the threat of COVID-19, and pursuant to Government Code Section 54953(e)(1)(A). A quorum was present.

Members Present:

Hon. Art Brown, Chair	<i>Buena Park</i>	District 21
Hon. Steve Manos	<i>Lake Elsinore</i>	District 63
Hon. Marty Simonoff, Vice Chair	<i>Brea</i>	District 22
Hon. Cheryl Viegas-Walker	<i>El Centro</i>	District 1
Hon. Alan D. Wapner	<i>Ontario</i>	SBCTA

Members Not Present

Hon. Ali Saleh	<i>Bell</i>	District 27
Hon. Edward Wilson	<i>Signal Hill</i>	GCCOG

CALL TO ORDER AND PLEDGE OF ALLEGIANCE

The Honorable Art Brown called the meeting to order at 10:30 a.m. and asked Marty Simonoff, City of Brea, to lead the Pledge of Allegiance. The Clerk confirmed a quorum was present.

PUBLIC COMMENT PERIOD

Chair Brown provided detailed instructions and general information on how to provide public comments. Additionally, he noted that public comments received via email to



[ePublicComment@scag.ca.gov](mailto:PublicComment@scag.ca.gov) after 5 p.m. on Tuesday, July 26, 2022, would be announced and included as part of the official record of the meeting.

Chair Brown opened the public comment period and asked members of the public to use the “raise hand” function on the computer or *9 by phone and wait for SCAG staff to announce their name or phone number.

Chair Brown thanked everyone for participating remotely. He noted that this was the time for members of the public to offer comment for matters that are within SCAG’s jurisdiction but are not listed on the agenda.

The Clerk acknowledged there were no written public comments received by email before or after the 5 p.m. deadline on Tuesday, July 26, 2022. SCAG staff also noted that there were no public comments for matters not listed on the agenda.

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

REVIEW AND PRIORITIZE AGENDA ITEM

There were no reprioritizations made.

ACTION ITEM

Selection of Vice Chair

A MOTION was made (Wapner) and SECONDED (Viegas-Walker) to nominate Hon. Marty Simonoff as Vice-Chair of the Audit Committee. The motion passed by the following roll call vote:

AYES: Brown, Manos, Simonoff, Viegas-Walker, and Wapner (5).

NOES: None (0)

ABSTAIN: None (0)

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

CONSENT CALENDAR

Approval Item

1. Minutes of the February 23, 2022, Meeting
-

Hon. Cheryl Viegas-Walker noted for the record her support for Hon. Ben Benoit who was nominated as Vice Chair of the Audit Committee during the Fiscal Year 2022 session.

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

AYES: Brown, Manos, Simonoff, Viegas-Walker, and Wapner (5)

NOES: None (0)

ABSTAIN: None (0)

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

2. Fiscal Year (FY) 2021-22 Briefing from Financial Auditors

Kome Ajise, Executive Director, welcomed the new members of the Audit Committee. He asked Cindy Giraldo, CFO, to introduce the FY 2021-22 external financial auditors.

Ms. Giraldo introduced Emad Gewaily, SCAG's new Controller and asked Mr. Gewaily to share some information about his background, as well as introduce Roger Alfaro, Partner, Eide Bailly LLP, SCAG's external financial auditors.

Mr. Alfaro provided a brief overview of the audit planning and risk assessment process for the FY 2021-22 audit. The presentation highlighted the following processes:

- Testing on Compliance and Internal Controls Required by U.S. Generally Accepted Governmental Auditing Standards (GAGAS); Reporting on Schedule of Expenditure of Federal Awards and on Compliance as required by the Single Audit Act
- Opinion expressed on compliance for the Single Audit applicable to major federal programs
- Details of the roles and responsibilities of the audit process, including Management's responsibilities in the planning process
- Updating the understanding of SCAG's environment, identification of Audit risk areas, Revenue recognition and Leases
- Preparation of the financial statements: draft Annual Comprehensive Financial Report (ACFR)
- Audit Timelines with final fieldwork conducted in September/October and reporting to the Audit Committee later in the year.

The PowerPoint presentation was included in the agenda packet.

There were no public comments received for this item.

3. Project Management Process Improvement Update

Debbie Dillon, Chief Strategy Officer, provided background information and noted that this report would be a final update on the project management process underway to support continuous improvement for project management and related processes, policies, and procedures. She noted that going forward the items contained in this update would be incorporated in the CFO report with periodic updates provided by the Enterprise Project Management Office (EPMO) currently led by the CIO, Julie Shroyer.

Ms. Dillon stated that as part of the Corrective Action Plan, which is now closed, the EPMO was created to develop better project management practices and procedures throughout the agency. She reported on the significant milestones in the EPMO since last reported to the Audit Committee, in February 2022. Ms. Dillon noted that SCAG continues to move away from Cost-Plus-Fixed Fee contracts and toward Lump Sum contract formats. This payment structure requires less administration and resources and is more attractive to potential bidders.

There were no public comments received for this item.

4. Internal Audit Report on Procurement

David James, Internal Auditor, presented an overview of SCAG's procurement process, compliance and risk assessments, observations, and recommendations. Mr. James referenced the Internal Audit Procurement Report included in the agenda packet. He stated the Internal Audit found that SCAG's procurement process was generally in compliance with its policies and government regulations. He reported there were some errors and omissions in the procurements tested by Internal Audit which staff was addressing, and this report had observations with recommendations to address these issues.

Mr. James noted the audit also found delays in the procurement process and made observations and recommendations related to procurement information systems. Other observations in the report included recommendations to increase efficiency of the procurement process, improvements to the approval workflow process, and an increase to the dollar threshold for Regional Council approval.

Staff responded to the comments and questions by the Councilmembers on the dollar threshold increase recommendations for Regional Council approval, department responsibilities and vendor relationships, and improvements to the Contracts routing and workflow processes.

The comprehensive staff report, and the SCAG Internal Audit Report on Procurement were included in the agenda packet.

There were no public comments received for this item.

5. Internal Audit Status Report

David James, Internal Auditor, presented the Internal Audit Status Report, which listed work performed since the last Audit Committee meeting. Mr. James gave highlights of the draft audit report completed on invoice payments and a brief update on the projects and other audits that were currently in progress.

Mr. James reported that SCAG had not received any reports on the Ethics Hotline since the last Audit Committee meeting. He stated that a new hotline service vendor was selected via the standard procurement and RFP process. Mr. James stated the ethics hotline was operational, and staff had been notified of SCAG's Ethics Hotline description and procedures.

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

6. Finance Status Report

Cindy Giraldo, Chief Financial Officer, provided an update of the significant progress made in several key areas. Some of the highlights reported were:

- SCAG's FY 2020-21 Indirect Cost Rate Plan was under review by FTA's Financial Management Oversight Contractor. SCAG staff had complied with all information requests and was awaiting the review results which they believed would be the following month.
- A review and update of SCAG's employee travel and business expenses policy had been completed. Staff received training and the updated policy and training documents were available on SCAGhub.
- The transition of completing pre-awards reviews from the Internal Auditor to the Contract Administrators continues to be successful with an additional \$257,721 in savings achieved since the last Audit Committee meeting. The savings achieved is also reported as part of the monthly CFO report.
- SCAG's Internal Auditor completed an audit of SCAG's procurement process, the audit findings were included in today's agenda. An update on the status of management's responses to the audit findings and recommendations were included with this presentation. Some of the more

significant ongoing and planned projects which address some of the recommendations are listed below:

1. Workflow automation project – currently approvals for financial documents like MOUs, procurement contracts, and invoices are routed through email. This new streamlined process would take documents out of the email system and into a single location where approvers and managers could track progress and status of their items.
2. Audit Committee consideration to recommend to the Regional Council an increase in the dollar threshold for contract approvals. Staff would return to the AC with historical data and options for the AC to consider.
3. A complete rewrite of SCAG’s procurement manual, forms, and training materials.

Councilmember Viegas-Walker requested staff to also include in their follow-up staff report regarding the dollar increase threshold recommendation to the RC, more detailed information explaining the many staff touchpoints currently required in the routing process to approve a contract.

Chair Brown requested staff to bring the dollar increase in threshold items to the AC for a thorough discussion on what the applicable recommendations to the Regional Council would be.

The comprehensive staff report and the Attachment 1: Management Update on Status Recommendations and Findings from the Internal Audit Report on Procurement were included in the agenda packet.

There were no public comments received for this item.

ANNOUNCEMENTS

Kome Ajise, Executive Director, provided additional background information on the Caltrans’ audit process, SCAG’s commitment to rules and systems, and SCAG’s best practices program implemented through the EPMO.

FUTURE AGENDA ITEMS

A staff report on approval thresholds for contracts that require Regional Council approvals.



ADJOURNMENT

There being no further business, Chair Brown adjourned the Audit Committee meeting at 12:04 p.m.

Respectfully submitted by:
Carmen Summers
Audit Committee Clerk

[MINUTES ARE UNOFFICIAL UNTIL APPROVED BY THE AUDIT COMMITTEE]

//

AUDIT COMMITTEE ATTENDANCE REPORT

2022-23

MEMBERS	Representing	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APRIL	MAY	Total Mtgs Attended To Date
Brown, Art	Buena Park, RC District 21	1											1
Manos, Steve	Lake Elsinore, RC District 63	1											1
Saleh, Ali	Bell, RC District 27												
Simonoff, Marty	Brea, RC District 22	1											1
Viegas-Walker, Cheryl	El Centro, RC District 1	1											1
Wapner, Alan	SBCTA Representative	1											1
Wilson, Edward	Signal Hill, GCCOG												

Attachment: AC Attendance FY 2022-23 (Minutes of the July 27, 2022 Meeting)



AGENDA ITEM 2
REPORT

Southern California Association of Governments
Remote Participation Only
October 12, 2022

To: Audit Committee (AC)

**EXECUTIVE DIRECTOR'S
APPROVAL**

From: Cindy Giraldo, Chief Financial Officer
(213) 630-1413, giraldo@scag.ca.gov

Subject: Consideration of Increase to Regional Council Contract and Contract
Amendments Approval Thresholds

RECOMMENDED ACTION:

That the Audit Committee discuss the proposed amendment to the Regional Council Policy Manual, increasing the Regional Council’s contract approval threshold to \$500,000 and the approval threshold for contract amendments to \$150,000 and 30%, and recommend that the Regional Council amend the Regional Council Policy Manual accordingly.

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 July 27, 2022, Audit Committee meeting, the Audit Committee directed staff to return with a recommendation and supporting data to be used to consider a recommendation that the Regional Council amend the Regional Council’s contract and contract amendment approval thresholds. Based on the analysis, an amended approval threshold of \$500,000 for contracts and \$150,000 and 30% for contract amendments will realign the balance between appropriate oversight and operating efficiency with the level established in March 2009 when the current threshold was put into place.

BACKGROUND:

At the July 27, 2022, Audit Committee meeting, Mr. David James, SCAG Internal Auditor, presented his findings and recommendations resulting from the completed internal audit on procurement. The following internal audit recommendation, shown in Exhibit 1, was included in his report, SCAG Internal Audit Report on Procurement:

Exhibit 1: SCAG Internal Audit Report on Procurement, Process Observation 6:***Process Observation 6: Regional Council Approval of Contracts***

The dollar threshold for Regional Council approval of contracts is \$200,000, and contract amendments are \$75,000 or a 30% increase. Project Managers must submit their project for approval before moving forward with a procurement and get on the schedule for the Regional Council, often causing a delay of a month or two for the procurement.

Recommendation

The Regional Council and executive management should consider increasing the dollar thresholds for Regional Council approval of procurements and contracts.

The Audit Committee was supportive of this recommendation and directed staff to return to the Audit Committee with historical data and a recommendation for the audit committee to consider.

CURRENT SCAG CONTRACT AND CONTRACT AMENDMENTS APPROVAL THRESHOLD:

The current contract and contract amendments approval authority for the Executive Director and Regional Council is formally documented in the Regional Council Policy Manual, Article IX, A-C (Exhibit 2). The current threshold requiring Regional Council approval of \$200,000 for new contracts and \$75,000 or 30% of the initial contract value for contract amendments has been in place since March 2009.

Exhibit 2: Regional Council Policy Manual, Article IX, A-C:

ARTICLE IX

**APPROVAL AND REPORTING THRESHOLDS AND DELEGATION OF
APPROVAL AUTHORITY**

The following paragraphs identify those items that require approval by or reporting to the Executive/Administration Committee and the Regional Council and describe the process by which the Regional Council and the Executive Director may delegate approval authority to identified individuals.

A. Contracts - Any SCAG contract valued at or above \$200,000 must be approved in advance by the Executive/Administration Committee and the Regional Council. Any SCAG contract valued at more than \$25,000 but less than \$200,000 must be reported as a Receive and File item on the agendas of the next regular meetings of the Executive/Administration Committee and the Regional Council following the execution of the contracts by SCAG's Executive Director or his/her designee.

B. Contract Amendments – Any amendment to a SCAG contract, whose value alone or when added to all prior amendments exceeds \$75,000 must be approved in advance by the Executive/Administration Committee and the Regional Council. Any amendment to a SCAG contract whose value alone or when added to all prior amendments exceeds \$5,000 but is less than \$75,000 must be reported as a Receive and File item on the agendas of the next regular meetings of the Executive/Administration Committee and the Regional Council following the execution of the amendments by SCAG's Executive Director or his/her designee.

C. Purchase Orders - Any SCAG purchase order valued at or above \$200,000 must be approved in advance by the Executive/Administration Committee and the Regional Council. Any SCAG purchase order valued at more than \$5,000 but less than \$200,000 must be reported as a Receive and File item on the agendas of the next regular meetings of the Executive/Administration Committee and the Regional Council following the execution of the purchase order by SCAG's Executive Director or his/her designee.



History of SCAG Contract Values:

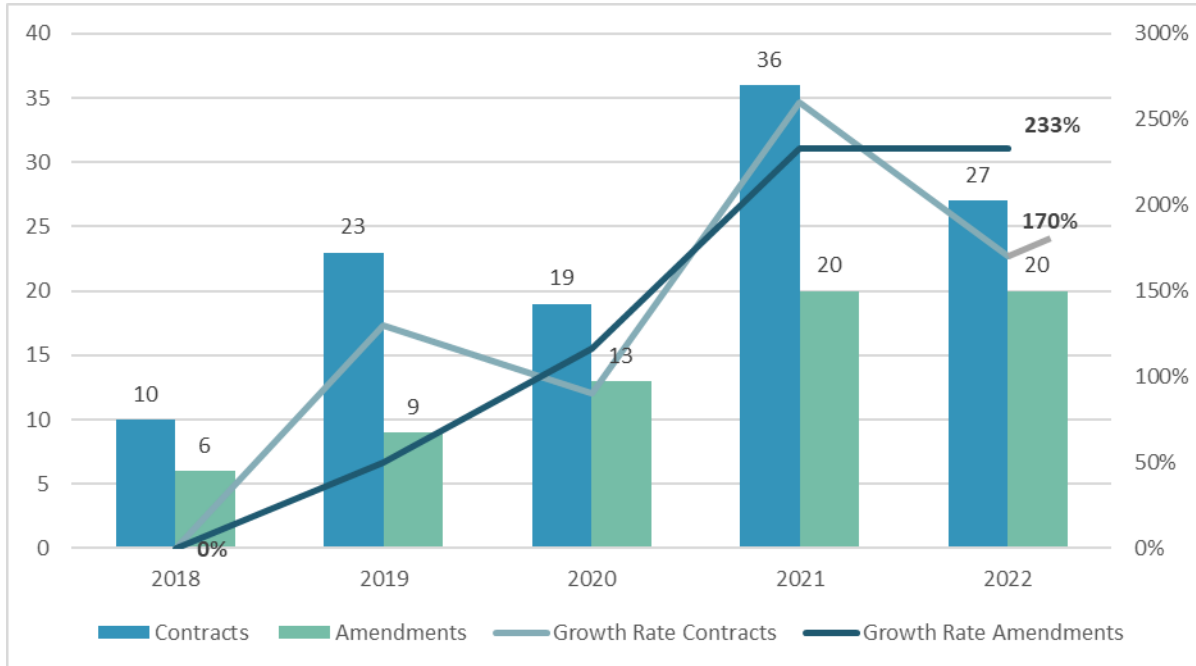
Table 1. below shows the number of SCAG contracts awarded from 2010 to 2022 at various thresholds. The total number of contracts awarded in this period is 863. During this period, the percentage of contracts requiring Regional Council approval has increased from 8% in 2010 to 32% in 2022.

Table 1. SCAG Contracts by Year at Various Thresholds

Contract Amt.	End. Amt.	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total All Years
\$1,000,000	or greater	1	2	1	3	0	1	0	1	2	5	1	2	2	21
\$500,000	\$999,999	1	2	2	3	3	3	3	6	3	5	5	6	11	53
\$400,000	\$499,999	2	1	4	1	4	1	1	3	2	2	2	5	3	31
\$300,000	\$399,999	0	1	3	4	5	2	2	7	1	5	8	10	6	54
\$200,000	\$299,999	2	3	2	4	2	10	4	6	2	6	3	13	5	62
\$100,000	\$199,999	21	23	32	13	18	25	16	9	9	20	17	26	14	243
\$50,000	\$99,999	22	14	11	9	3	15	6	6	6	13	8	10	7	130
\$1	49,999	25	27	10	25	10	14	16	19	10	24	17	35	37	269
Total		74	73	65	62	45	71	48	57	35	80	61	107	85	863
% Total Contracts above \$200K		8%	12%	19%	24%	31%	24%	21%	40%	29%	29%	31%	34%	32%	
% Total Contracts above \$300K		5%	8%	15%	18%	27%	10%	13%	30%	23%	21%	26%	22%	26%	
% Total Contracts above \$400K		5%	7%	11%	11%	16%	7%	8%	18%	20%	15%	13%	12%	19%	
% Total Contracts above \$500K		3%	6%	5%	10%	7%	6%	6%	12%	14%	13%	10%	8%	15%	

Chart 1. Below shows the growth in the number of SCAG contracts and contract amendments requiring Regional Council approval over the last five fiscal years. The number of contracts has increased by an average growth rate of 233%, and the number of contract amendments requiring approval has increased by an average growth rate of 170% from 2018 to 2022.

Chart 1. SCAG Contracts and Amendments requiring Regional Council Approval



Survey of Comparable Agencies:

The Finance Division surveyed the contract approval thresholds for 17 comparable agencies. Benchmark agencies include the City of Long Beach, the City of Pasadena, LA Metro, MTC, MWD, Orange County, OCTA, SANDAG, and SCAQMD. To gather additional data from comparable agencies, AMBAG, ICTC, Imperial County, Metro Link, SACOG, SBCTA, RCTC, and Metropolitan Washington Council of Governments were also surveyed. The survey confirmed that these agencies have established board approval thresholds. However, there was no notable consistency in the threshold amount or the applied methodology to determine a commonly accepted best practice. Among the 17 agencies, dollar thresholds ranged between \$10,000 and \$5 million, with 12 of the 17 agencies requiring board approval before contract execution (consistent with SCAG’s practice) and five agencies requiring board approval before the release of the solicitation/Request for Proposals (RFP).

DISCUSSION:

Procurement policies and practices enable an agency to promote maximum value and economy for the agency's constituents through fair and competitive processes. The goal underlying such policies is to select vendors and service providers using processes that minimize opportunities for favoritism and provide competitive pricing. For service providers, the task also involves assessing whether the provider's skills best meet the agency's needs. SCAG's Finance Division administers and oversees the agency's procurement processes to help ensure that procurement practices comply with Federal and State requirements, applicable grant requirements, and SCAG's By-laws and Regional Council Policy Manual.

It is broadly recognized that internal controls and fiscal procedures often work in contrast to operating efficiency goals. However, they are essential to ensure public trust, which must be considered when determining the value delivered to our constituents through our contracting practices. The Regional Council Policy Manual recognizes the need for, and the importance of, appropriate fiscal oversight by establishing Regional Council approval thresholds for contracts and contract amendments. Balancing the need for operating efficiency with proper oversight is the primary consideration when determining an appropriate Regional Council contract approval threshold.

SCAG's current Regional Council contract and contract amendments approval thresholds have been at their current level since March 2009. Since that time, SCAG's operations have grown significantly. In FY 2008-09, SCAG's adopted Comprehensive Budget was \$40M. Today, our adopted Comprehensive Budget is \$125M; with the incorporation of REAP 2021, our current annual budget will grow to approximately \$370M. A growth rate of 825% since FY 2008-09, when our current contract approval threshold was established.

With the growth of SCAG's budget and natural inflationary factors, the balance of oversight and efficiency has shifted since the initial establishment of the contract and contract amendment approval threshold. The shift is most clearly seen in Table 1. In FY 2009-10, the Regional Council approved 8% of the contracts executed by SCAG; today, with the same threshold, the Regional Council is being asked to approve nearly one-third of all contracts executed. Should the Regional Council's contract approval threshold be increased to \$500,000, it is projected that approximately 10-15% of all contracts would require Regional Council approval, an oversight balance that is more in line with the threshold established in March 2009.

Based on the analysis of the data provided, the staff recommends that the Audit Committee recommend the following guidelines to the Regional Council:

PROPOSED GUIDELINE	CONTRACT AWARD & CONTRACT AMENDMENT RECOMMENDATION
<p>The threshold is based on the goal of 10-15% of contracts requiring board approval. The contract amendment threshold is aligned with the current 30% guideline. Any contract amendment that causes the total contract value to cross the \$500,000 contract threshold will require Regional Council approval regardless of the amount of the amendment. Any SCAG contract valued at more than \$25,000 but less than \$500,000 and any contract amendment that exceeds \$5,000 but is less than \$150,000 and 30% of the initial contract value must be reported as a Receive and File item on the agendas of the next regular meetings of the Executive Administration Committee and the Regional Council.</p>	<p>\$500,000 for Contract Award \$150,000 AND 30% for Contract Amendments</p>

FISCAL IMPACT:

There is no direct fiscal impact of the recommended action. However, by increasing the contract and contract amendment approval thresholds, SCAG will improve operating efficiency, help ensure grant proceeds are expended in a timely manner as directed by the grant guidelines and reduce contract cost overruns related to delays in contract amendment executions.



AGENDA ITEM 3
REPORT

Southern California Association of Governments
Remote Participation Only
October 12, 2022

To: Audit Committee (AC)

**EXECUTIVE DIRECTOR'S
APPROVAL**

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

Subject: Internal Audit on Invoice Payments 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:

- *Internal Audit has completed an audit report on invoice payments. SCAG management has reviewed the report and responded in writing to its recommendations. Management's response follows the report.*
- *Internal Audit found that invoices paid during the audit period were allowable, supported, and in compliance with SCAG's policies and procedures. This audit found areas where internal controls and processes could be improved, as described in the Observations and Recommendations section of the report.*
- *The audit period covers invoices paid for Fiscal Year 2021.*

FISCAL IMPACT:

None.

ATTACHMENT(S):

1. SCAG Internal Audit on Invoice Payments Report
 2. IA Invoice Audit Management Response
-



SCAG Internal Audit
Report on Invoice Payments
September 14, 2022
By David James, CPA

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Executive Summary

This audit found that invoices paid during the audit period were allowable, supported, and in compliance with SCAG’s policies and procedures. This audit found areas where internal controls and processes could be improved, as described in the Observations and Recommendations section on page 7 of this report.

Audit Objectives and Scope

Internal Audit performed this audit to determine whether invoices paid by SCAG were allowable, supported, and in compliance with SCAG’s policies and procedures. The audit period covers invoices paid for fiscal year 2021.

Audit Methodology

Internal Audit selected a sample of invoice payment packages that represent the variety of vendors, types of agreements, and levels of materiality. Most of the invoices tested were from consultants, which typically have greater complexity with invoice submission requirements. Approximately half of the contract invoices tested were for actual cost-plus-fixed fee agreements. 40% were lump sum agreements. 9% were labor rate/time and materials agreements. 3% were cost reimbursements. All types of invoice packages were tested including payments for MOU agreements with local governments and agencies.

Internal Audit tested invoices for:

- Disallowances or adjustments to payment amounts
- Hourly rates supported by payroll registers or equivalent
- Hours supported by employee activity reports
- Overhead, fringe, and fixed fee percentages supported by direct labor analysis
- Line-Item Budget that supports invoice charges
- Invoices split and allocated to more than one project/work element with source documentation to support costs applicable to each project/work element
- Consultant progress reports submitted with the invoices including the percentage of work completed
- Invoice funding allocation within total invoice amount
- In-kind match tracking
- Project Manager, Section Manager, Contracts Manager, and Accounting staff approvals.

Background of SCAG’s Invoice Payment Process

SCAG had 3,982 invoice packages for fiscal year 2021. An invoice package consists of documents such as the check remittance, the invoice, a cover sheet with contract information and invoices paid on the contract, cost categories, funding allocations, payroll registers of consultants, documentation of hours worked, a project progress report by the vendor, and the percentage of work completed on each stage of the project. Some invoice packages have over two hundred pages of documentation for a single invoice.

SCAG's Accounting Department consists of nine positions: the Controller, two Lead Accountants, two Accountant IIIs, an Accountant II, an Accountant I, an Accounting Technician, and an Office Assistant. However, the accounting function is not now fully staffed, and SCAG is recruiting for three accounting staff.

In practice, all accounting staff share responsibilities for invoice processing, ensuring that an invoice's charges are documented and supported, and in compliance with contractual requirements.

Approval and Payment Process for Contractual Invoices

Vendors should send to the designated accountant at SCAG invoices which pertain to a contractual commitment between SCAG and the consultant. Vendors sometimes send invoices directly to the Project Manager, Legal, or Human Resources, who redirect the invoices to Accounting staff. Accounting uses emails for the invoice approval process. Accounting staff enters vendor payment information into MS Dynamics Great Plains (GP).

The assigned accountant should be familiar with pertinent parts of the contract agreement, such as: the line-item budget, direct labor rate, overhead rate, fringe benefit rate, subcontractors, other direct costs, travel, and the fixed-fee.

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

An Account Payable is recorded upon a review that the invoice is complete, and the Project Manager, Section Manager, and Lead Accountant or Controller (if direct report staff are working on the invoices) have approved it. If the invoice is incomplete or not approved by the Project Manager, the invoice is not recorded.

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

The Project Manager, Accountant, and vendor communicate by email to request approval and required documentation. If required, the Accountant sends a copy of the third request to the section manager and the director of the department.

The Accountant reviews invoices to assess that the invoice complies with the contract terms and SCAG's procedures. If a contract amendment is necessary, the Contracts section coordinates the process with the contractor and the SCAG Project Manager and notifies Accounting of any changes.

Accountants record contract information on the cover sheet such as the name of the contractor, the contract number, the amount of the contract, and the effective dates. Other information includes the year-to-date invoiced amounts, the remaining contract balance, progress reports, cash/in-kind match reports, and comments. Each accountant keeps the cover sheet current.

When the invoice package is complete and approved by the Project Manager, Section Manager, Lead Accountant, and Controller, the invoice is eligible for payment. Before payment, an accountant gives the invoice package to a Lead Accountant for a final review to determine the invoice package is complete and ready for payment. The Lead Accountant approves the invoice package.

An accountant then keeps the invoice with other open Accounts Payables until the next check cycle. At that time, a check is prepared to the payee. The Controller reviews and approves all invoice packages and check registers. The Controller signs the checks and approves ACH payments to vendors.

In addition:

- Invoices between \$25,000 and \$50,000 require Deputy Finance Director approval.
- Invoices between \$50,000 and \$200,000 require CFO approval.
- Invoices over \$200,000 require Chief Operating Officer approval.

After the checks are signed, an accountant copies the remittance information to mail with the check to support any deductions made from the check. The accountant gives the remittance package to the Accounting Technician to mail directly to the payee. The Accounting Technician files the supporting documentation.

Types of Contracts and Methods of Payment

The method of payment to the consultant is specified in the original solicitation, contract, and contract amendments.

Four methods are allowed depending on the scope of services to be performed:

Actual Cost-Plus-Fixed Fee

The consultant is reimbursed for actual costs incurred and receives an added predetermined amount as a fixed fee. The determination of the amount of the fixed fee considers the size, complexity, duration, and degree of risk involved in the work. The fixed fee dollar amount must be in the contract. The fixed fee limit applies to the total direct and indirect costs.

The contract specifies a maximum length of the contract period and a maximum total contract dollar amount. The contract cost proposal must name all key employees and/or classifications to be billed. New key employees and/or classifications must be approved before they incur work on the contract, or SCAG staff can disallow the costs.

SCAG reimburses the consultant for actual costs incurred by the consultant for work performed consistent with the Scope of Work and schedule. SCAG does not reimburse the consultant for costs that exceed the maximum rate for each position specified in the line-item budget. These types of contracts require consultants' timesheets, receipts, payroll register, and line-item budgets from consultants. They usually pay overhead, fringe, and fixed fees. Invoices are accompanied by written progress reports describing the percentage and status of work completed. Consultants submit invoices monthly. Consultants pay sub-tier consultants for their completed work.

Lump Sum or Firm Fixed Price

The consultant performs the services 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 allow fair compensation to be determined and evaluated by all parties during negotiations. Normally, a lump sum

contract will be paid in full at the end of the contract when completed. However, a lump sum contract can be negotiated with progress payments based on percent of work complete or completion of clearly defined milestones. The contract cost proposal documents the agreed upon progress payment and includes the necessary milestones' costs or the percent work complete schedule. Because lump sum contracts require less processing and documentation than actual cost-plus-fixed fee agreements, SCAG has moved to use lump sum agreements with vendors when possible.

Cost Per Unit of Work

SCAG pays the consultant based on the specific item of work performed. The item of work must be similar, repetitious, and measurable. This method of payment is appropriate when the cost per unit of work can be determined with reasonable accuracy in advance, but the extent or quantity of the work is indefinite. Contract payment provisions must specify what is included in the price to be paid for each item. Any item of work not identified in the contract cost proposal is not eligible for reimbursement. New items of work (those within the original scope of work only) must be amended into the contract before work is performed. The contract specifies a maximum length of contract period and a maximum total dollar amount.

Specific Rates of Compensation

The consultant is paid at an agreed and supported specific fixed hourly, daily, weekly, or monthly rate, for each class of employee engaged directly in the work. Such rates of pay include the consultant's estimated costs and net fee or profit. The specific rates of compensation, except for an individual acting as a sole proprietor, include an hourly breakdown, direct salary costs, fringe benefits, indirect costs, and net fee. Other direct costs may be included, such as travel and equipment rentals, if not already captured in the indirect cost rate.

This method of payment should only be used when it is not possible at the time of procurement to estimate the extent or the duration of the work, or to estimate costs with any reasonable degree of accuracy. This method should not be used for project specific contracts and is for on-call contracts for specialized or support type services, where the consultant is not in direct control of the number of hours worked. SCAG staff should monitor the consultant's level of effort and the classification of employees who perform the contracted work. The contract specifies maximum length of contract period and a maximum total dollar amount.

Observations and Recommendations

Observation 1: Purchase Orders Requirement

At SCAG, vendors can start work without an approved purchase order. A purchase order is an internal control commonly issued by organizations to ensure that the goods and services they order are approved appropriately for the items purchased, price, and quantity. Purchase orders protect the organization from unauthorized purchases and purchasing disputes with vendors.

Recommendation

Staff should ensure that a Purchase Order is approved before vendors provide goods or services.

Observation 2: Invoice Approval Process

SCAG does invoice payment approvals by email, which slows processing of invoices. A Project Manager, Section Manager, Contracts Manager, and several Accounting staff typically approve an invoice.

Recommendation

SCAG's Accounts Payable system should move to a more efficient invoice approval system.

Observation 3: Invoice Review Staff Roles

Accounting is the last stop before payments to vendors, so it is the accountant's responsibility to verify all invoice payment documentation is correct and complete. Accounting staff are tracking project expenses to ensure projects do not go over the budgeted amount. However, the Project Manager has much of the direct knowledge of project status and funding, and the Contracts Administrator has direct experience that contract requirements are followed.

Recommendation

Management should clearly define responsibilities of the Project Manager, Contracts Administrator, and Accountant in the invoice approval process. Management should ensure that each section timely fulfills their responsibilities in the invoice payment process. For consulting projects, the Project Manager should review invoices for contract compliance and monitor expenses to ensure projects stay within budget.

Observation 4: Invoice Review Requirements

There are several instances where SCAG accounting staff disqualified some expenses on consultant invoices. Accounting staff also had to remind the consultant staff of requirements for submission of invoices and supporting documentation of the invoice charges. This required numerous email communications and meetings to resolve and was a drain on staff time.

Examples of invoice items that SCAG accounting staff disallowed include:

- Part of a direct labor charge because the vendor employee rate was incorrect
- Part of a direct labor charge because the vendor's timesheets did not support the hours claimed
- A variance between the percentage of work completed and the dollar amount billed
- Budget translation fees billed by a subvendor, a prepayment amount, and an incorrect mileage rate submitted by the vendor.

Recommendations

1. SCAG staff should consider giving consultants a standard document that explicitly describes allowable expenses and the required documentation to be submitted with invoices. SCAG could send an invoice requirements document to the consultant staff that prepares invoices at the beginning of each project. At the beginning of a project, SCAG project staff should meet with the consultant’s staff that prepares invoices to review the contractual requirements for invoicing.
2. SCAG should offer a checklist to Project Managers on requirements for invoice approvals. The checklist would include items that should be on the invoices submitted by the vendor per the contract. Project Managers would checkoff that they verified items such as:
 - a. Labor rates for each consultant employee in the invoice are the same as in the Line-Item Budget in the contract
 - b. Rates for overhead, fringe, and fixed fees in the invoice are as stated in the Line-Item Budget in the contract
 - c. Actual costs billed are allowable per the contract
 - d. The total amount to be paid to the vendor is within the approved budget
 - e. The invoice charges occurred within the contract start and end dates
 - f. Each consultant employee or classification has been approved by SCAG
 - g. Consultants have submitted documentation with their invoice as required such as timesheets, receipts, payroll registers, and line-item budgets
 - h. Invoices are accompanied by written progress reports describing the percentage and status of work completed
 - i. Percentage of work invoiced matches percentage of work completed.

Management Response to Internal Audit Report on Invoice Payments

Item	Item Description	IA Recommendation	Management Response	Status
Observation 1	Vendors can start work without an approved Purchase Order.	Staff should ensure that a Purchase Order is approved before vendors begin work or goods are purchased.	Vendors need an executed agreement or, when stipulated, as is the case for consultant contracts, a Notice to Proceed (NTP) to begin work on a contract, not an approved Purchase Order (PO). However, we revised our procedures to require the PO creation before executing the agreement or issuing an NTP to help ensure the necessary PO information is available to the accountant when the consultant invoices are received. Further, Contracts Department staff have been trained on this new requirement.	Complete
Observation 2	SCAG does invoice payment approvals by email, which slows processing of invoices.	SCAG's Accounts Payable system should move to a more efficient invoice approval system.	Improving document approval workflow has been identified as a Finance division priority for all departments including Accounting. As part of an on-going workflow automation project, Finance has taken significant steps to document the approval routing of all finance documents and, as part of the process, has documented the purpose of each approval in the sequence and has identified those that seem unnecessary or redundant. While ultimately all finance departments will be included, Finance management has chosen B&G documents for the initial roll-out of workflow automation, mainly based on available staffing resources. Finance and IT are working closely together on the implementation of this project.	In progress
Observation 3	Accounting is the last stop before payments to vendors, so it is the accountant's responsibility to verify all invoice payment documentation is correct and complete. Accounting staff are tracking project expenses to ensure projects do not go over the budgeted amount. However, the Project Manager has much of the direct knowledge of project status and funding, and the Contracts Administrator has direct experience that contract requirements are followed.	Management should clearly define responsibilities of the Project Manager, Contracts Administrator, and Accountant in the invoice approval process. Management should ensure that each section timely fulfills their responsibilities in the invoice payment process. For consulting projects, the Project Manager should monitor expenses versus budget to ensure projects stay within budget.	As previously mentioned, improving document approval workflow has been identified as a Finance division priority for all departments including Accounting. As part of an on-going workflow automation project, Finance has taken significant steps to document the approval routing of all finance documents and, as part of the process, has documented the purpose of each approval in the sequence and has identified those that seem unnecessary or redundant. <u>The intent of documenting the purpose of each approval is to ensure that approvers, such as project managers, are clear on their role when reviewing documents, like invoices, for approval.</u> While ultimately all finance departments will be included, Finance management has chosen B&G documents for the initial roll-out of workflow automation, mainly based on available staffing resources. Finance and IT are working closely together on the implementation of this project.	In progress
Observation 4	There are several instances where SCAG accounting staff disqualified some expenses on consultant invoices. Accounting staff also had to remind the consultant staff of requirements for submission of invoices and supporting documentation of the invoice costs. This required numerous email communications and meetings to resolve and was a drain on staff time.	SCAG should consider as part of the contracting process to give consultants a standard document that explicitly describes allowed and disallowed expenses, and the required documentation to be submitted with invoices. SCAG could send an invoice requirements document to the consultant staff that prepares invoices at the beginning of each project.	SCAG consultant contracts include clear information on the allowable costs and labor rates in the line item budget section of the contract. Challenges for errors discovered while processing invoices generally stem from the consultant's lack of due diligence in the preparation of the invoice and not due to a lack of clarity in the information provided in the contract. SCAG accounting staff will continue to work with consultants to ensure they adhere to the contracted costs and rates.	Complete



AGENDA ITEM 4
REPORT

Southern California Association of Governments
Remote Participation Only
October 12, 2022

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

**EXECUTIVE DIRECTOR'S
APPROVAL**

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 has completed a draft audit report on stipends.*
- *The Internal Audit of the payroll process is in progress.*
- *A procurement and RFP for an external auditor is in progress.*
- *The SCAG ethics hotline had no reports since the last Audit Committee meeting.*

BACKGROUND:

SCAG’s Internal Auditor performs assessments of SCAG operations, including evaluations of the effectiveness and efficiency of various departments, functions and evaluating governance, risk management, and internal controls. Internal Audit assists staff in efficient and effective discharge of responsibilities by providing independent analyses, appraisals, findings, and recommendations.

A. Internal Audit of Stipends

Internal Audit has completed a draft report on SCAG’s stipends payments for meeting attendance. When staff has reviewed and commented on the report, Internal Audit will present a final version of the report to executive management and the Audit Committee.

Internal Audit performed this audit to determine whether SCAG staff paid stipends for meeting attendance according to SCAG policies and procedures. The audit period covers stipends from fiscal year 2022.

B. Internal Audit of Payroll

The internal audit of SCAG's payroll process is in progress. The objective of the audit is to determine that certain payroll processes are functioning according to SCAG policies and procedures.

C. Procurement for External Auditor

SCAG's RFP for an external auditor is in progress.

Three CPA firms submitted a response to SCAG's RFP solicitation:

- Davis Farr LLP
- Eide Bailly LLP
- Vasquez & Company LLP

The procurement review committee will review the submissions on the three CPA firms. SCAG is scheduled to have a final selection in October and present the selection at the November board meeting.

D. SCAG Ethics Hotline Reports Update

No reports were submitted to SCAG's ethics hotline since the last Audit Committee meeting.

FISCAL IMPACT:

None.