



## REGULAR MEETING

# AUDIT COMMITTEE

SOUTHERN CALIFORNIA  
ASSOCIATION OF GOVERNMENTS  
818 West 7th Street, 12th Floor  
Los Angeles, CA 90017  
T: (213) 236-1800  
F: (213) 236-1825  
www.scag.ca.gov

***Tuesday, May 9, 2017***  
***2:30 p.m. – 4:00 p.m.***

**SCAG Main Office**  
**818 W. 7th Street, 12th Floor**  
**Policy Committee Room A**  
**Los Angeles, CA 90017**  
**(213) 236-1800**

## Teleconference 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:

<http://www.scag.ca.gov/committees/Pages/default.aspx>

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 contacting Tess Rey-Chaput at (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.

### REGIONAL COUNCIL OFFICERS

President  
Michele Martinez, Santa Ana

First Vice President  
Margaret E. Finlay, Duarte

Second Vice President  
Alan Wapner, Ontario

Immediate Past President  
Cheryl Viegas-Walker, El Centro

### COMMITTEE CHAIRS

Executive/Administration  
Michele Martinez, Santa Ana

Community, Economic &  
Human Development  
Bill Jahn, Big Bear Lake

Energy & Environment  
Carmen Ramirez, Oxnard

Transportation  
Barbara Messina, Alhambra

***Audit Committee Membership  
May 9, 2017***

**Members**

1. Hon. Alan Wapner, Ontario, (**Chair**)
2. Hon. Michele Martinez, Santa Ana
3. Hon. Margaret Finlay, Duarte, (**Vice Chair**)
4. Hon. Cheryl Viegas-Walker, El Centro
5. Hon. Glen Becerra, Simi Valley
6. Hon. Greg Pettis, Cathedral City
7. Hon. Edward H. J. Wilson, Signal Hill

**Representing**

**SBCTA/SBCOG, SCAG,  
2<sup>nd</sup> Vice-President  
District 16, SCAG, President  
District 35, SCAG 1<sup>st</sup> Vice-President  
District 1, SCAG, Imm. President  
District 46  
District 2  
Gateway Cities COG**



## Teleconference Locations

Hon. Alan Wapner  
Hyatt Regency Long Beach  
200 South Pine Avenue  
Long Beach, CA 90802

Hon. Margaret Finlay  
2221 Rim Road  
Duarte, CA 91008

Hon. Michele Martinez  
Biltmore Hotel  
2151 Laurelwood Rd.  
Santa Clara CA 95054

Hon. Cheryl Viegas-Walker  
Walker & Driskill, PLC  
3205 S. Dogwood Road, Suite B  
El Centro, CA 92243

Hon. Greg Pettis  
City Hall  
68700 Avenida Lalo Guerrero  
Cathedral City, CA 92234

Hon. Glen Becerra  
Los Angeles Metro  
One Gateway Plaza  
Los Angeles, CA 90012-2952

Hon. Ed Wilson, CPA (Inactive)  
Mayor Signal Hill  
City Hall  
2175 Cherry Ave.  
Signal Hill, CA 90755



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**AUDIT COMMITTEE  
TELECONFERENCE INFORMATION  
Pursuant to Government Code Section §54953**

**INSTRUCTIONS REGARDING TELECONFERENCE**

***Teleconference number provided under separate cover***

**For Brown Act requirements, please ensure that your agenda is posted  
at your teleconference location.**

**Thank you. If you have any questions, please call  
Carmen Summers at (213) 236-1984**



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# AUDIT COMMITTEE AGENDA MAY 9, 2017

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**TIME      PG#**

*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 & PLEDGE OF ALLEGIANCE**

*(Hon. Alan Wapner, 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 Audit Committee must fill out and present a speaker’s card to the Assistant prior to speaking. Comments will be limited to three (3) minutes per speaker provided that the Chair has the discretion to reduce this time limit based on the number of speakers. The Chair may limit the total time for all public comments to twenty (20) minutes.

**REVIEW and PRIORITIZE AGENDA ITEMS**

**CONSENT CALENDAR**

**Approval Items**

- |   |            |  |   |
|---|------------|--|---|
| 1. <u>Minutes of the March 29, 2017 Meeting</u> | Attachment |  | 1 |
|---|------------|--|---|

**ACTION ITEM**

- |  |            |        |   |
|--|------------|--------|---|
| 2. <u>Fiscal Year (FY) 2016-17 External Auditor Selection</u><br><i>(Joshua Margraf, Internal Auditor)</i> | Attachment | 45 min | 5 |
|--|------------|--------|---|

**Recommended Action:** Provide direction to SCAG’s external independent auditors concerning their audit of the fiscal year ending June 30, 2017.

**INFORMATION ITEMS**

- |  |            |        |    |
|--|------------|--------|----|
| 3. <u>IT Initiative – Physical Controls</u><br><i>(Joshua Margraf, Internal Auditor)</i> | Attachment | 20 min | 17 |
| 4. <u>Internal Audit Status Report</u><br><i>(Joshua Margraf, Internal Auditor)</i>      | Attachment | 10 min | 23 |



**AUDIT COMMITTEE  
AGENDA  
MAY 9, 2017**

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**TIME    PG#**

**STAFF REPORT**

**FUTURE AGENDA ITEMS**

Any member or staff desiring to place items on a future agenda may make such a request.

**ANNOUNCEMENTS**

**ADJOURNMENT**

*The next regular Audit Committee meeting is scheduled for Tuesday, August 8, 2017 at the SCAG Los Angeles Office.*



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Audit Committee  
of the  
Southern California Association of Governments

March 24, 2017

*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**

**Representing**

Hon. Michele Martinez, Santa Ana

District 16, SCAG President  
(Via Teleconference)

Hon. Margaret Finlay, Duarte

District 35, SCAG 1<sup>st</sup> Vice-President  
(Via Teleconference)

Hon. Cheryl Viegas-Walker, El Centro

District 1, SCAG Imm. Past President  
(Via Teleconference)

Hon. Glen Becerra, Simi Valley

District 46  
(Via Teleconference)

Hon. Greg Pettis, Cathedral City

District 2  
(Via Teleconference)

**Members Not Present**

Hon. Alan Wapner, Ontario, (**Chair**)

SANBAG, 2<sup>nd</sup> Vice-President

Hon. Edward H. J. Wilson, Signal Hill

Gateway Cities COG

**CALL TO ORDER**

Hon. Margaret Finlay, Vice-Chair, called the meeting to order at 2:31 p.m.

**ROLL CALL**

Due to the absence of a quorum at the start of the meeting, staff suggested that Information Item No. 3 be presented to the Audit Committee until a quorum was present. A formal roll call was taken at 2:41 p.m. and a quorum was established, at which time the Audit Committee considered the remaining agenda items.

**PUBLIC COMMENT PERIOD**

None.

**REVIEW and PRIORITIZE AGENDA ITEMS**

The Audit Committee heard the presentation on Information Item No. 3 at the start of the meeting and thereafter, proceeded with the remaining agenda items when a quorum was established.

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Audit Committee  
of the  
Southern California Association of Governments

March 24, 2017

*Minutes*

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**CONSENT CALENDAR**

**Approval Items**

1. Minutes of the November 29, 2016 Meeting

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

AYES:           Finlay, Martinez, Pettis and Viegas-Walker (4).  
NOES:           None (0).  
ABSTAIN:       Becerra (1).

**ACTION ITEM**

2. Fiscal Year (FY) 2016-17 External Auditor Selection

Richard Howard, Internal Auditor, provided an overview of the FY 2016-17 External Auditor selection process. He reported that SCAG issued a Request for Proposal (RFP) for auditing services commencing with the 2016-17 fiscal year. The Proposal Review Committee (PRC) (which included staff, and Audit Committee member, Hon. Cheryl Viegas-Walker) had interviews of the finalists on March 6, 2017. Vavrinek, Trine, Day & Co., LLP was selected by the PRC to be SCAG's external auditor. Mr. Howard requested the committee to review and approve the selected External Auditor as recommended by the PRC, and make a formal recommendation to the Regional Council regarding the appointment thereof. Hon. Viegas-Walker commented on the thoroughness of the procurement process for the External Auditor.

A MOTION was made (Viegas-Walker) and SECONDED (Becerra) to approve staff's recommendation. The motion was passed by the following roll call vote:

AYES:           Finlay, Martinez, Becerra, Pettis and Viegas-Walker (5).  
NOES:           None (0).  
ABSTAIN:       None (0).

**INFORMATION ITEMS**

3. New Ethics Hotline Update

Richard Howard, Internal Auditor, provided an overview and update of the new "Ethics Hotline and Reporting System" (Hotline) that will be managed by Lighthouse Services, a third party servicer. Mr. Howard noted that the Hotline would be available 24 hours a day, seven days a week and will include a variety of methods for reporting incidents. He commented that Lighthouse would also provide a monthly report showing the number of incidents reported. The Hotline is now available to SCAG staff and the general public. The Hotline's contact information is posted on SCAG's

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Audit Committee  
of the  
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March 24, 2017

*Minutes*

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website and around SCAG's offices. It was also noted that two anonymous complaints have been received on the Hotline, and that staff is in the early stages of reviewing the matters in accordance with SCAG's Ethics Policy which includes asking follow-up questions of the complainants through Lighthouse.

4. IT Initiative – IT Summary

Joshua Margraf, Assistant Internal Auditor, provided an overview and background information of the Internal Audit of SCAG's IT Division, which was completed in order to provide the Audit Committee with a better understanding of the division's organization, operations, budgets and resources.

A summary of the FY18 budget breakdown and future assessments of audit work, to further identify and review any future potential areas of risk, was included in the agenda packet.

The Committee thanked staff for their efforts and oversight for providing a prompt response to the Audit Committee's questions and inquiry from the previous meeting.

5. Internal Audit Status Report

Richard Howard, Internal Auditor, provided a brief overview of the Internal Audit Status Report.

**STAFF REPORT**

Catherine Kirschbaum, CIO, provided a brief update responding to the inquiry addressed by the Audit Committee at its November 29, 2016 meeting. She commented on the information security challenges and risks associated with cybersecurity threats, and noted that SCAG is in process of receiving a quote for consultant services for the first phases of the cyber security consultant testing and services. Ms. Kirschbaum commented that the engagement will include training for SCAG executives and staff.

Ms. Kirschbaum reported on her annual visit to the Las Vegas Nevada collocation center. She noted that she, along with Joshua Margraf, SCAG's Internal Auditor was given a full and informative tour of the facility. Ms. Kirschbaum thanked the committee for their continued support of the IT management decision making process.

The full Information Security Status report was included in the November 29, 2016 agenda packet.

Staff responded on the comments and questions expressed by the Councilmembers

**FUTURE AGENDA ITEMS**

There were no future agenda items requested.

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Audit Committee  
of the  
Southern California Association of Governments

March 24, 2017

*Minutes*

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**ANNOUNCEMENTS**

It was announced that today served as Richard Howard's last Audit Committee meeting given his pending retirement. The Audit Committee and staff thanked Richard Howard for his dedication, service and valuable contributions to the agency. They wished him well.

Richard Howard responded with kind words to the Audit Committee and staff and expressed gratitude for their support throughout the years.

**ADJOURNMENT**

*Hon. Margaret Finlay, Vice- Chair, adjourned the meeting at 3:01 p.m. The next meeting of the Audit Committee will be held on Tuesday, May 9, 2017 at 2:30 p.m.*

**Minutes Approved by:**

Joshua Margraf, Assistant Internal Auditor, for  
Richard Howard, Internal Auditor, Retired.

# REPORT

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**DATE:** May 9, 2017  
**TO:** Audit Committee  
**FROM:** Josh Margraf, Internal Auditor, (213) 236-1890, margraf@scag.ca.gov  
**SUBJECT:** Fiscal Year (FY) 2016-17 External Financial Audit

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**RECOMMENDED ACTION:**

Provide direction to SCAG's external independent auditors concerning their audit of the fiscal year ending June 30, 2017.

**EXECUTIVE SUMMARY:**

*SCAG's external independent auditor will present the FY 2016-17 audit plan and receive Committee direction.*

**STRATEGIC PLAN:**

This item supports SCAG's Strategic Plan Goal 3: Enhance the Agency's Long Term Financial Stability and Fiscal Management.

**BACKGROUND:**

SCAG's external independent auditors, Vavrinek, Trine, Day, and Company, LLP (VTD) will commence their preliminary work soon for the audit of SCAG's FY 2016-17 financial statements. They will discuss their audit plan and receive input and questions from the Committee.

**FISCAL IMPACT:**

None

**ATTACHMENT:**

VTD Audit Communications

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# Southern California Association of Governments

AUDIT COMMUNICATIONS

# Audit Scope and Timing

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Perform the audit of the:

- Comprehensive Annual Financial Report (CAFR)
- OMB Uniform Grant Guidance – Single Audit

Timeline:

- Planning and Interim Fieldwork – May/June
- Final Fieldwork – September/October
- Report Delivery – November/December



# Our Responsibility

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

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

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

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

# Our Responsibility

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

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

# Our Responsibility

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Communicate other matters:

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

# Our Approach

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## Planning and Risk Assessment:

- Meet with Management
- Obtain an understanding of the entity, its environment and risks
- Identify audit risk areas
- Inspect financial and other information
- Consider/inquire regarding fraud risks
- Understand the design and implementation of internal control
- Prepare risk assessment and audit plan
- Test key business cycles – revenue, disbursements, payroll, investments, capital assets, financial reporting, IT and budget

# Our Approach

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## Final:

- Address key audit areas
- Perform tests, on a sample basis, on account balances and classes of transactions
- Prepare draft CAFR
- Test journal entries
- Assess accounting principles used and significant estimates
- Confirm contingencies with legal counsel
- Consider subsequent events

## Exit:

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

# Questions

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Contact information

Roger Alfaro, Partner

[ralfaro@vtdcpa.com](mailto:ralfaro@vtdcpa.com)

909-466-4410

VALUE THE *difference*

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# REPORT

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**DATE:** May 9, 2017

**TO:** Audit Committee

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

**SUBJECT:** IT Initiative – Physical Controls

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**RECOMMENDED ACTION:**

For Information Only – No Action Required.

**EXECUTIVE SUMMARY:**

*Internal Audit reviewed the physical and environmental controls in place for SCAG's IT assets.*

**STRATEGIC PLAN:**

This item supports SCAG's Strategic Plan, Goal 3 - Enhance the Agency's Long Term Financial Stability and Fiscal Management.

**INTRODUCTION:**

As part of our annual audit planning, we previously sent SCAG's Audit Committee and management team a risk assessment input form that highlighted key agency risk areas, and requested that the areas be ranked by degree of risk. IT was rated the highest. We have met with IT Division staff to identify specific areas of risk that may be beneficial for us to review. One such area is physical security of IT assets.<sup>1</sup> This includes access and environmental controls.<sup>2</sup>

**SCOPE AND METHODOLOGY:**

Our objective was to review access and environmental controls that help protect SCAG IT assets and data. We focused primarily on controls at the data center where SCAG houses its IT assets related to core computing systems. This location is SCAG's primary site for its computing capabilities. Because the data center is operated by an outside company, we did not test controls at the site. Instead, we toured the data center facilities and met with the chief security officer to identify and discuss the controls in place. In addition, we obtained and reviewed documentation—in the form of external audit reports—that demonstrate the data center's controls have been tested and are operating effectively. Further, we compared the controls at the data center with control practices related to managing the IT physical environment as stated in the COBIT 5 framework to determine the extent to which they correspond to those practices.<sup>3</sup> To a lesser extent, we focused on SCAG's Los Angeles office because SCAG intends to relocate in the near term (within a year) as well as contract for

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<sup>1</sup>Physical security of assets refers to preventing, detecting, and mitigating risks related to theft, temperature, fire, smoke, water, vibration, terror, vandalism, and power outages, among other things.

<sup>2</sup>Access and environmental controls are part of managing the IT environment, and include protecting computer assets and business data while minimizing the risk of business disruption.

<sup>3</sup>COBIT 5 is a framework for the government and management of enterprise IT developed by ISACA. It is considered a good-practice framework in managing IT assets, to include internal controls. See <https://cobitonline.isaca.org/> for more information on ISACA and COBIT 5.

a secondary data center. We met with representatives from SCAG's IT Division and the consultant that provides IT services at the Los Angeles office to discuss controls.

We performed this review from March 2017 through May 2017 in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions.

## **BACKGROUND:**

To meet expanding planning, modeling, and computing requirements while increasing capacity and security of automated systems and decreasing the risk of extended outages related to natural or man-made disasters, SCAG sought out a securely managed data center. In April 2012, SCAG signed a contract with Switch Communications, LLC to provide colocation services for IT assets at Switch's data center in Las Vegas, Nevada.<sup>4</sup> In June 2015, SCAG extended the contract with Switch to June 2020.

Since contracting with Switch, SCAG has moved its core enterprise and planning computing systems to Switch's data center. The server room in the Los Angeles office is now used as a backup or secondary site. SCAG signed a contract in March 2012 with Allied Digital Services, LLC (ADSL) for daily IT support, which includes access and environmental controls for the Los Angeles office such as network device monitoring and maintenance.<sup>5</sup>

## **DATA CENTER CONTROLS:**

The data center that houses SCAG's primary computing capabilities is located in Las Vegas, Nevada. Representatives from SCAG's IT Division and Switch noted that Las Vegas is a desirable location for colocation services because it does not experience natural disasters, such as earthquakes, to the degree that other locations do, and the climate is relatively stable. Further, it is located close enough to major metropolitan areas on the West Coast, such as Los Angeles, that data transfer and network connection speeds are not major issues. Taking into consideration geographic location, to include factors such as susceptibility to natural disasters, is considered a good control practice.

We visited the Switch's data center and met with the company's Director of Security, who provided us with a tour of the data center's facilities as well as identified access and environmental controls used to help protect IT assets and data as well as minimize risk of business disruption. The controls that we saw and discussed correspond to industry control practices related to managing the IT environment as identified in the COBIT 5 framework. Table 1 lists some of the controls discussed during the site visit.

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<sup>4</sup>Switch is a private company that provides colocation services at offsite data centers for both private and public organizations. See <https://www.switch.com/locations/#switch-las-vegas> for information about Switch.

Colocation services include space, power, cooling, and physical security for the server, storage, and networking of equipment.

<sup>5</sup>See <https://www.allieddigital.net/us/> for information on ADSL.

**Table 1: Examples of Access and Environmental Controls at Primary Data Center Housing SCAG IT Assets**

<b>Access Controls</b>
<b>Restricted Access</b>
<ul style="list-style-type: none"><li>• Only authorized individuals permitted to enter facilities. SCAG authorization comes from Chief Information Officer (CIO), and must be sent to data center prior to visit.</li><li>• All individuals must undergo security orientation before access is granted.</li><li>• Regular visitors given badge that only provides access to company assets.</li><li>• Infrequent or one-time visitors must be accompanied at all times—either by an authorized regular visitor or security.</li><li>• Two factor authentication used to access SCAG assets.</li><li>• Lost or expired badges never reactivated. SCAG staff must request new badge through CIO.</li><li>• Delivery of IT equipment must be pre-arranged and adhere to specific time frames.</li></ul>
<b>Security</b>
<ul style="list-style-type: none"><li>• On-site security presence 24 hours.</li><li>• 350+ security cameras at Las Vegas facilities.</li><li>• Security maintains records on all individuals with access, including access allowances and restrictions.</li><li>• Badge swiping recorded to help ensure individuals are not trying to access restricted areas.</li><li>• Security staff with military experience.</li></ul>
<b>Environmental Controls</b>
<b>Facility</b>
<ul style="list-style-type: none"><li>• Data center made from concrete.</li><li>• Design takes into account physical cabling—clearly labeled and readily accessible.</li><li>• Cabinets containing equipment attached to facility to minimize movement.</li><li>• No food or drink permitted in areas with equipment.</li><li>• Cardboard and other flammable materials restricted.</li><li>• Sticky mats collect dirt and dust from shoes—located at every entrance inside data center.</li><li>• Sensors monitor air quality for particulates.</li><li>• Routine cleaning of facility.</li><li>• Photography prohibited. Customers may only photograph own equipment and security must be present.</li></ul>
<b>Fire Suppression</b>
<ul style="list-style-type: none"><li>• Required fire suppression training for data center staff.</li><li>• Fire extinguishers checked monthly.</li><li>• Hydrogen dry pump system—piping of water directed away from servers and equipment until needed.</li><li>• Overall fire suppression system tested quarterly.</li></ul>
<b>Power</b>
<ul style="list-style-type: none"><li>• Multiple back-up power supply—five standby generators.</li><li>• Access to generators restricted.</li><li>• Generators can produce excess power—data center requires 70 megawatts, but generators produce up to 100 megawatts.</li><li>• Power supply and associated equipment undergo quarterly maintenance checks.</li></ul>
<b>Safety</b>
<ul style="list-style-type: none"><li>• Required first aid and CPR training for data center staff.</li><li>• Emergency plans in place.</li></ul>

Source: Notes from site visit to data center and meeting with Director of Security.

Although we did not test controls at the data center, we saw how some work firsthand. For instance, we needed to photograph SCAG equipment located at the data center as part of SCAG’s annual asset inventory. We had to notify security prior to taking photos, because photography is generally prohibited except in cases where a customer requires a photo of its own equipment. Security monitored us so as to make sure we only photographed SCAG equipment. In another instance, because the facility is large and divided into numerous secured sectors, we wound up in another sector of the facility, so we kept using our badge at an inaccessible door so security would be alerted and show us where we needed to go.

In addition to the controls listed above, the Director of Security indicated that Switch's facilities undergo regular independent audits by external parties to test controls, among other things. We requested copies of the most recent audits so as to help verify that controls in place are operating in an effective manner. Switch provided SCAG with two independent Service Organization Control (SOC) audit reports covering the time frame of October 2015 through September 2016: (1) a SOC 1 report, which is concerned with examining controls over financial reporting; and (2) a SOC 2 report, which is concerned with examining controls related to security, processing integrity, confidentiality, or privacy of the data center's system and information.<sup>6</sup> Both reports found that Switch had effective controls. Our particular interest was in the SOC 2 report because it relates to access and environmental controls as part of colocation services as well as provides support for the effectiveness of the controls discussed during our site visit.<sup>7</sup> The SOC 2 report specifically noted that Switch's controls were suitably designed to provide reasonable assurance that they met criteria for security and availability principles as set forth by the American Institute of Certified Public Accountants (AICPA).<sup>8</sup> These criteria share characteristics with control practices in the COBIT 5 framework, and include items such as network monitoring, proper temperature, adequate power levels, badge access, surveillance cameras, fire suppression systems, and disaster recovery plans, among other things. The SOC 2 report further noted that the controls operated effectively.

## LOS ANGELES OFFICE:

Much of the risk associated with housing IT assets at the Los Angeles office is related to the office's location and age of the building. For instance, the Los Angeles office is located in an earthquake prone area. Further, the building where the office is located is relatively old with limited space to house IT assets. Other risks include exposed cabling and pipes. The sprinkler system can pose an issue to IT equipment as it is a wet pipe system. Power interruption, as demonstrated by the power outage in downtown Los Angeles during August 2015, can also be an issue. SCAG is aware of such risks, which is why it has contracted for colocation services in Las Vegas and made the Los Angeles office SCAG's backup site for its computing capabilities. To further help mitigate risk at the Los Angeles office, SCAG contracts with various providers to ensure access and environmental controls, such as an armed security guard, security cameras, and restricted access to the server and storage rooms as well as bi-weekly AC maintenance to ensure proper temperature in the server room. Fire extinguishers are checked and recharged on a regular basis. Other key controls include network monitoring to help proactively detect hardware failures, and a disaster recovery plan.

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<sup>6</sup>See <http://www.aicpa.org/interestareas/frc/assuranceadvisoryservices/pages/cpas.aspx> for more information on the types of SOC reports.

Schellman and Company, LLC, *Switch SOC 1 Report for Colocation Services*, (Tampa, FL: Oct. 17, 2016).

Schellman and Company, LLC, *Switch SOC 2 Report for Colocation Services*, (Tampa, FL: Oct. 17, 2016).

<sup>7</sup>Colocation services offered by Switch include: physical security (e.g. access control, security, and sensors among others); infrastructure operations (e.g. fire protection, power management, and heating, among others); provisioning of colocation services; support for colocation services; and network management and monitoring. The physical security services include access controls while the infrastructure operations include environmental controls.

<sup>8</sup>Information on AICPA criteria can be found in the AICPA Guide entitled *Trust Services and Principles*. Also see <https://www.aicpa.org/InterestAreas/FRC/AssuranceAdvisoryServices/Pages/TrustDataIntegrityTaskForce.aspx>.

# REPORT

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SCAG staff rely heavily on laptops to carry out their work—this will remain the same regardless of office location. As such, SCAG has a laptop security policy located on its intranet site.<sup>9</sup> The policy discusses both physical security controls for laptops as well as controls for unauthorized access among other things.

SCAG plans to move office space in the near future (within a year). Additionally, the SCAG IT Division noted in its fiscal year (FY) 2018 budget that SCAG is planning for a secondary data center to provide colocation services, thereby further reducing the amount of IT assets housed at SCAG's Los Angeles office. SCAG will need to determine what physical and environmental controls are necessary and how they should be enacted at the new office location due to any potential changes in business requirements and/or environmental factors.

## **CONCLUSION:**

SCAG is aware of risks associated with housing its core enterprise and planning computing systems in the immediate Los Angeles area. This is reflected in current operations where SCAG's primary data center is located in Las Vegas and operated by a third-party with experience providing colocation services, to include physical security of IT assets. Although we did not test the controls at the primary data center, they correspond to industry practices and have been independently audited against established criteria. There are also access and environment controls in place at the Los Angeles office that help ensure IT assets are protected and operating. However, any risks to IT capabilities in the Los Angeles office are mitigated to an extent in that the office is considered a backup site. In the long-term, SCAG's Los Angeles office will be located in another facility. Additionally, SCAG plans to have a secondary data center. Risks to IT assets and computing capabilities will likely change. As such, SCAG will have to revisit its physical and environmental controls to determine which are necessary and how they should be enacted.

## **RECOMMENDATION:**

As SCAG starts to move facilities and contract for a second data center, it should define and implement access and environmental controls that are in-line with any changes in business requirements and environmental factors.

## **RESPONSE TO RECOMMENDATION:**

The IT Division provided comments on the draft that have been incorporated, and agreed with the recommendation.

## **FISCAL IMPACT:**

None

## **ATTACHMENT:**

None

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<sup>9</sup>See <http://info/policies/documents/LaptopSecurityPolicy.doc>.

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# REPORT

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**DATE:** May 9, 2017  
**TO:** Audit Committee  
**FROM:** Josh Margraf, Internal Auditor, (213) 236-1890, margraf@scag.ca.gov  
**SUBJECT:** Internal Audit Status Report

## **EXECUTIVE DIRECTOR’S APPROVAL:**

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### **RECOMMENDED ACTION:**

For Information Only – No Action Required.

### ***EXECUTIVE SUMMARY:***

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

### **STRATEGIC PLAN:**

This item supports SCAG’s Strategic Plan, Goal 3 – Enhance the Agency’s Long Term Financial Stability and Fiscal Management.

### **BACKGROUND:**

Since the last Audit Committee meeting in March, 2016, Internal Audit has assisted the Contracts Department with rate checks, monitored the Ethics Hotline, and performed a review of physical controls related SCAG’s IT assets.

#### *Rate Checks*

We have provided assistance to the Contracts Department by providing rate checks—direct labor rates and indirect rates—on consultant information in 2 contract amendments and 3 requests for proposal (RFP). These were not full audits, but included procedures for verifying direct labor rates and indirect rates.<sup>1</sup> There were no questioned costs.

#### *Ethics Hotline*

Since March 2017, SCAG’s Ethics Hotline has received 10 reports. Of these, one incident was reported twice—the same information was reported via the Ethics Hotline website and also sent to Lighthouse via U.S. mail. At the time of preparing this staff report, there are 8 open incidents, and one incident has been closed. Eight of the reports were submitted anonymously by individuals claiming to be employees and one was submitted anonymously by an individual claiming to be a member of the public. The nature of the incidents varies, with 3 related to compliance and ethics, and 6 related to human resources (HR). The Ethics Hotline categorizes information based on information reported. The extent of information contained within the reports varies greatly. For instance, some provide general information regarding alleged violations but lack specificity.

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<sup>1</sup>Included are direct labor rate checks for amendments to contracts 13-023-C1 and 16-10A-C1 as well as direct labor and indirect rate checks for the following RFPs: 17-028, 17-032, and 17-028

# REPORT

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SCAG’s Chief Counsel and Internal Audit addresses reports through the Ethics Hotline in accordance with SCAG’s Ethics Policy.<sup>2</sup> This includes performing a preliminary review of a reported incident to determine its merit, and whether a more in-depth investigation is warranted. The preliminary investigation can include asking questions of the reporter via the hotline system due of lack of specifics in their original hotline report.<sup>3</sup> The Chief Counsel is SCAG’s lead for investigations related to potential ethics violations, and the Internal Auditor is the intake for any incidents reported via the Ethics Hotline. The Internal Auditor has also assisted in reviewing the cases, and can inform the Audit Committee of the status regarding ethics violations. SCAG plans to develop some more formalized guidelines regarding how to handle reports made through the Ethics Hotline.

### *Agenda Items*

The new external audit firm conducting the annual audit of SCAG’s financial statements for fiscal year 2017—Varinek, Trine, Day, and Company, LLP (VTD)—will discuss upcoming audit plans, and receive input and questions from the Committee. A report on SCAG’s physical controls for its IT assets is also included in today’s agenda.

### **FISCAL IMPACT:**

None

### **ATTACHMENT:**

None

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<sup>2</sup>As per the SCAG’s Ethics Policy, SCAG’s Chief Counsel will conduct, or authorize the conduct of, an investigation of an allegation of violations to the policy as reported by Internal Audit, unless the alleged violation involves the Legal Services Group. SCAG, *SCAG Ethics Policy* (Los Angeles, CA: April 2, 2009). See <http://info/policies/pdfs/scagEthicsPolicy062811.pdf> for a copy of the policy.

<sup>3</sup>The time frame to respond to the follow-up questions is 30 calendar days. As the process becomes more final, the time frame may change.