



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

REGULAR MEETING

AUDIT COMMITTEE

Tuesday, November 14, 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 and Videoconference will be available

If members of the public wish to review the attachments or have any questions on any of the agenda items, please contact Carmen Summers at (213) 236-1984 or via email at SUMMERS@scag.ca.gov. 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
Margaret E. Finlay, Duarte

First Vice President
Alan D. Wapner, Ontario

Second Vice President
Bill Jahn, Big Bear Lake

Immediate Past President
Michele Martinez, Santa Ana

COMMITTEE CHAIRS

Executive/Administration
Margaret E. Finlay, Duarte

Community, Economic &
Human Development
Rex Richardson, Long Beach

Energy & Environment
Carmen Ramirez, Oxnard

Transportation
Curt Hagman, San Bernardino County

Audit Committee Membership November, 2017

Members

1. Hon. Bill Jahn, Big Bear Lake, (**Chair**)
2. Hon. Margaret Finlay, Duarte
3. Hon. Alan Wapner, Ontario

4. Hon. Michele Martinez, Santa Ana
5. Hon. Glen Becerra, Simi Valley
6. Hon. Joe Buscaino, Los Angeles
7. Hon. Jeffrey Giba, Moreno Valley
8. Hon. Ray Marquez, Chino Hills
9. Hon. Greg Pettis, Cathedral City
10. Hon. Cheryl Viegas-Walker, El Centro (**Vice-Chair**)
11. Hon. Edward H. J. Wilson, Signal Hill

Representing

District 11, SCAG, 2nd Vice-President
District 35, SCAG President
**SBCTA/SBCOG, SCAG, 1st Vice-
President**
District 16, SCAG, Imm. Past President
District 46
District 62
District 69
District 10
District 2
District 1
Gateway Cities COG

Teleconference Locations

Hon. Margaret Finlay
2221 Rim Road
Duarte, CA 91008

Hon. Michele Martinez
1212 S. Parton Street
Santa Ana CA 92707

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

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

Hon. Ray Marquez
City Hall
14000 City Center Drive, 2nd Floor
Chino Hills, CA 91709.

Hon. Greg Pettis
Charlotte Hilton
222 East Third Street
Charlotte, NC 28202

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

Videoconference Location

Hon. Jeffrey Giba
SCAG Riverside Regional Office
3403 10th Street, Suite 805
Riverside, CA 92501



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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 NOVEMBER 14, 2017

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. Bill Jahn, 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 September 12, 2017 Meeting</u> | Attachment | | 1 |
| 2. <u>2018 Proposed Meeting Schedule</u> | Attachment | | 5 |

ACTION ITEMS

- | | | | |
|--|-------------------|---------------|----------|
| 3. <u>Internal Audit Charter Update</u>
<i>(Joshua Margraf, Internal Auditor)</i> | Attachment | 10 min | 7 |
|--|-------------------|---------------|----------|

Recommended Action: Review SCAG’s updated Internal Audit Charter for input and approval.

- | | | | |
|---|-------------------|---------------|-----------|
| 4. <u>Ethics Policy Update</u>
<i>(Joshua Margraf, Internal Auditor)</i> | Attachment | 15 min | 13 |
|---|-------------------|---------------|-----------|

Recommended Action: Review SCAG’s updated Ethics Policy for adoption prior to forwarding to the Regional Council for approval

INFORMATION ITEMS

- | | | | |
|---|-------------------|---------------|-----------|
| 5. <u>FY 2017-18 Preliminary External Financial Update</u>
<i>(Joshua Margraf, Internal Auditor)</i> | Attachment | 30 min | 29 |
|---|-------------------|---------------|-----------|



AUDIT COMMITTEE AGENDA NOVEMBER 14, 2017

		<i>TIME</i>	<i>PG#</i>
6. <u>Service Review of Extended Warranties and Software Agreements</u> <i>(Joshua Margraf, Internal Auditor)</i>	Attachment	15 min	43
7. <u>Internal Audit Status Report</u> <i>(Joshua Margraf, Internal Auditor)</i>	Attachment	5 min	47

FUTURE AGENDA ITEMS

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

ANNOUNCEMENTS

ADJOURNMENT

As proposed, the next regular meeting of the Audit Committee will be held on Tuesday, March 20, 2018 at the SCAG Los Angeles office, 900 Wilshire Blvd., 17th Floor, Los Angeles, CA 90017-4701.

Audit Committee
of the
Southern California Association of Governments

September 12, 2017

Minutes

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. Bill Jahn, Big Bear Lake, (**Chair**)

District 11, 2nd Vice President
(Via Teleconference)

Hon. Margaret Finlay, Duarte

District 35, SCAG President
(Via Teleconference)

Hon. Alan Wapner, Ontario

SBCTA/SBCOG, 1st Vice-President
(Via Teleconference)

Hon. Michele Martinez, Santa Ana

District 16, SCAG Imm. Past President
(Via Teleconference)

Hon. Jeff Giba, Moreno Valley

District 69 (Via Videoconference)

Hon. Ray Marquez, Chino Hills

District 10 (Via Videoconference)

Hon. Greg Pettis, Cathedral City

District 2 (Via Teleconference)

Hon. Cheryl Viegas-Walker, El Centro
(**Vice-Chair**)

District 1, SCAG (Via Teleconference)

Members Not Present

Hon. Joe Buscaino, Los Angeles

District 62

Hon. Glen Becerra, Simi Valley

District 46

Hon. Edward H. J. Wilson, Signal Hill

Gateway Cities COG

Audit Committee
of the
Southern California Association of Governments

September 12, 2017

Minutes

CALL TO ORDER & PLEDGE OF ALLEGIANCE

Hon. Bill Jahn, Chair, called the meeting to order at 2:00 p.m. and asked Councilmember Cheryl Viegas-Walker to lead in the Pledge of Allegiance.

ROLL CALL

A formal roll call was taken and it was determined that a quorum was present.

PUBLIC COMMENT PERIOD

None.

REVIEW and PRIORITIZE AGENDA ITEMS

There was no reprioritization of agenda items.

SELECTION OF VICE CHAIR

A MOTION was made (Finlay) to nominate and select Hon. Cheryl Viegas-Walker, City of El Centro, as the Vice-Chair. Motion was SECONDED (Marquez). The motion was passed by the following roll call vote:

AYES: Jahn, Finlay, Wapner, Giba, Marquez, Pettis and Viegas-Walker (7).
NOES: None (0).
ABSTAIN: None (0).

CONSENT CALENDAR

Approval Items

1. Minutes of the May 9, 2017 Meeting

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

AYES: Finlay, Wapner, Giba, Pettis and Viegas-Walker (5).
NOES: None (0).
ABSTAIN: Jahn, Marquez (2).

INFORMATION ITEMS

2. Ethics Hotline Update

Joshua Margraf, Internal Auditor, provided an overview and background information on the reports submitted through the new Ethics Hotline. He noted that staff continues to monitor reports received, as well as investigate and close reports as appropriate. Additionally, Mr. Margraf reported, as part of updating its policies and procedures, SCAG staff is reviewing the current procedures in the *Ethics Policy*, to include how best to leverage the new Ethics Hotline, such as using it for specific instances of fraud, waste, abuse, harassment, and/or other matters. In addition staff is developing

Audit Committee
of the
Southern California Association of Governments

September 12, 2017

Minutes

potential new procedures for addressing any complaints received. Updates on the Ethics Policy and any new procedures will be presented at the next Audit Committee meeting.

3. Contract Closure Review

Joshua Margraf, Internal Auditor, provided a report of SCAG's Contract Closure controls. He noted that SCAG's contract closeout practices have some limitations, such as a lack of a standardized method for tracking contract deliverables and monitoring contract performance, which results in limited assurance that contracts are being performed in an efficient manner, and that all deliverables have been received. Staff responded on the comments and questions expressed by the Committee members.

Mr. Margraf indicated that staff has started working on updates to SCAG policies and procedures, which include procurement and project management. These updates should help address current limitations with the closeout practices that were identified. At the direction of the Audit Committee, staff will present any progress regarding updates to the procurement and project management policies at the next Audit Committee meeting.

The comprehensive report was included in the agenda packet.

The Committee thanked staff for their efforts in providing a thorough report.

4. Internal Audit Status Report

Joshua Margraf, Internal Auditor, provided a brief overview of the Internal Audit Status Report which also included updates of the agenda items presented on the agenda today. He asked the Committee to identify any additional risks that Internal Audit might review.

FUTURE AGENDA ITEMS

- Ethic Hotline update
- Procurement and Project Management policies update

ANNOUNCEMENTS

There were no announcements given.

ADJOURNMENT

Hon. Bill Jahn, Chair, adjourned the meeting at 2:37 p.m. The next meeting of the Audit Committee will be held on Tuesday, November 14, 2017 at 2:30 p.m.

Minutes Approved by:

Joshua Margraf, Internal Auditor

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REPORT

DATE: November 14, 2017
TO: Audit Committee
FROM: Josh Margraf, Internal Auditor, (213) 236-1890, margraf@scag.ca.gov
SUBJECT: Audit Committee Meeting Schedule - 2018

RECOMMENDED ACTION:

Approve the Proposed 2018 Meeting Schedule for the Audit Committee.

EXECUTIVE SUMMARY:

The Audit Committee is requested to approve a schedule of Committee meetings for next year.

STRATEGIC PLAN:

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

BACKGROUND:

Audit Committee meetings are typically held from 2:30 p.m. - 4:00 p.m. The tentative schedule for the 2018 Audit Committee meetings is as follows:

- **Tuesday, March 20, 2018**
(Date does not conflict with the 2018 National League of Cities Conf. (March 11-14))
- **Tuesday, June 12, 2018**
- **Tuesday August 14, 2018**
- **Tuesday, November 13, 2018**
(Date does not conflict with the 2018 National League of Cities Summit-Los Angeles. (Nov. 7-10))

FISCAL IMPACT:

None

ATTACHMENT:

None

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REPORT

DATE: November 14, 2017

TO: Audit Committee

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

SUBJECT: SCAG Internal Audit Charter Update

RECOMMENDED ACTION:

Review SCAG's updated *Internal Audit Charter* for input and approval.

EXECUTIVE SUMMARY:

Internal Audit has updated the Internal Audit Charter to ensure that it is up-to-date and reflects the current purpose and responsibilities of the internal audit function.

STRATEGIC PLAN:

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

BACKGROUND:

SCAG is currently in the process of reviewing and updating its policies and procedures across the agency. As part of this process, Internal Audit has reviewed and updated the *Internal Audit Charter* (attachment 1), which identifies the internal audit function's authority and responsibilities.

The *Internal Audit Charter* establishes the internal audit function's position within SCAG, to include reporting relationships with management and the Audit Committee. In addition, the *Internal Audit Charter* authorizes access to records, personnel, and properties relevant to the performance of engagements. Internal auditing standards state that the internal audit charter should be reviewed periodically.¹ This helps ensure the charter reflects the current purpose and responsibilities of the internal audit function, and that they have been appropriately documented. The updates reflect both the current version of U.S. Generally Accepted Government Auditing Standards (GAGAS) as well as current internal auditing standards.² SCAG last updated the *Internal Audit Charter* in 2002.

CONCLUSION:

Given that the *Internal Audit Charter* has not been updated in approximately 15 years, it should be reviewed, updated, and approved as necessary.

¹Institute of Internal Auditors (IIA), *International Standards for the Professional Practice of Internal Auditing (Standards)* (Jan. 2017), and ISACA, *Information Systems (IS) Audit and Assurance Standards* (Nov. 2013).

²GAO, *Government Auditing Standards 2011 Revision*, GAO-12-331G, (Dec. 2011), and (IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)* (Jan. 2017). Updates to GAGAS are currently being reviewed by the U.S. Government Accountability Office (GAO) and have not been finalized. As the updates are finalized, Internal Audit will review them to determine the extent to which they affect SCAG's *Internal Audit Charter*.

REPORT

RECOMMENDATION:

The Audit Committee should review the updated *Internal Audit Charter* and provide input as needed. Further, the Audit Committee should approve the document no later than the next Audit Committee meeting (tentatively set for Tuesday, March 20, 2018).

FISCAL IMPACT:

None

ATTACHMENT:

(1) Updated Internal Audit Charter

SCAG INTERNAL AUDIT CHARTER

INTRODUCTION

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

POLICY

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

OBJECTIVE

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

PROFESSIONALISM

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

AUTHORITY

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

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

ORGANIZATION

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

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

- Review the charter, plans, activities, staffing, and organizational structure of the internal audit function.
- Review and approve the internal audit function's annual workplan, including the nature and scope of the audits scheduled for the fiscal year.
- Receive and review draft internal audit reports.
- Ensure no unjustified restrictions or limitations, and review and concur in the appointment, replacement, or dismissal of the internal auditor.

- Meet separately with the internal audit function on an as-needed basis to discuss any matters that the Audit Committee or internal audit believes should be discussed privately.

INDEPENDENCE AND OBJECTIVITY

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

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

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

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

INTERNAL AUDIT PLAN

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

RESPONSIBILITY

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

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

- Participate in the development and implementation of new or revised SCAG audit programs, systems, procedures and methods of operation.
- Report all cases of actual or suspected loss, theft, misappropriation or misuse of Association monies or property immediately to the Chief Counsel and Chief Operating Officer.
- Review and coordinate any requests by outside agencies to conduct audits, which includes, but not necessarily limited to, federal, state, county, or others with a contractual right to audit.

END OF CHARTER

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REPORT

DATE: November 14, 2017

TO: Audit Committee

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

SUBJECT: SCAG Ethics Policy Update

RECOMMENDED ACTION:

Review SCAG's updated *Ethics Policy* for adoption prior to forwarding to the Regional Council for approval.

EXECUTIVE SUMMARY:

SCAG has updated the agency's Ethics Policy.

STRATEGIC PLAN:

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

BACKGROUND:

SCAG is currently in the process of reviewing and updating agency policies and procedures. This includes identifying key guidance in need of updates as well as prioritizing time frames for the updates. SCAG's *Ethics Policy* is considered a key document that requires updating (see attachment I for a copy of the current policy).¹ An ethics policy is an important part of an organization's internal control framework, as it helps establish and maintain a positive control environment by demonstrating a commitment to integrity and ethical values through adherence to standards of conduct.

SCAG's current *Ethics Policy* describes the conduct of work that is expected of all SCAG employees. Every employee is expected to read and adhere to the policy—every year employees attest that they have read and will adhere to the policy by signing a form that is submitted to the Human Resources department. The *Ethics Policy* was created in 2009 and needs updating to reflect changes in SCAG operations. For instance, SCAG recently adopted a new Ethics Hotline for the reporting and tracking of any allegations or complaints related to unethical or fraudulent behavior, but the contact information for the new hotline is not included in the current *Ethics Policy*. Further, it is beneficial to review agency policies on a regular basis (e.g. every two to three years) for relevancy and accuracy.

With the addition of the new Ethics Hotline it became necessary to develop written internal procedures for intake and management of reports made through the hotline. The procedures are finalized and in place as of November 9, 2017. These procedures clearly outline specific steps, as well identify roles and responsibilities from the receipt of complaints via an Ethics Hotline report through close out. The procedures will be monitored and updated as needed.

¹SCAG, *Ethics Policy* (approved by Regional Council April 2, 2009).

REPORT

CONCLUSION:

Given the importance of the *Ethics Policy*, SCAG has updated it to reflect current practices (see attachment II for a copy of the updated policy). The updates to the policy are being presented to the Audit Committee for review, input, and adoption, specifically as it relates to the Audit Committee's role in reviewing the effectiveness of SCAG's internal controls.

RECOMMENDATION:

The Audit Committee should review the updated *Ethics Policy* to provide input as needed. Further, the Audit Committee, should adopt the updated policy prior to forwarding to the Regional Council for approval.

FISCAL IMPACT:

None

ATTACHMENT:

- (1) Current Ethics Policy
- (2) Updates to Ethics Policy

SCAG ETHICS POLICY

Approved by Regional Council - April 2, 2009

Section 1 Purpose.

The Southern California Association of Governments (SCAG) is a public agency that shall conduct its business with integrity in an honest and ethical manner. This Ethics Policy (Policy) describes the minimum conduct of work expected of all SCAG employees. SCAG expects that employees will perform their duties conscientiously, honestly, and in accordance with the best interests of SCAG. This Policy may include subjects that are addressed in other SCAG rules and policies. In such cases, the respective rule or policy is referenced in order for the reader to obtain additional information regarding the particular subject matter. All referenced rules and policies are available to SCAG employees via the SCAG Intranet under "Policies & Procedures."

Section 2 General Policy.

- A. It is the policy of SCAG that all employees must, at all times, comply with this Policy and all applicable laws and regulations.
- B. All business conduct shall be in compliance with this Policy, all applicable laws and regulations, and the exercise of good judgment based upon SCAG's values and goals.
- C. SCAG will not condone any employee who violates this Policy or any applicable law or regulation, or otherwise engages in unethical business dealings. This includes payment in consideration of illegal acts, indirect compensation, kickbacks and bribery.
- D. Employees who violate this Policy may be subject to disciplinary action up to and including termination and/or criminal prosecution.

Section 3 Scope.

This Policy is applicable to all SCAG employees, current and new hires. All employees shall receive a copy of this Policy and shall acknowledge receipt of this Policy in writing as part of new employee orientation and annually.

Section 4 Responsibilities.

- A. *Employees*
Every employee is responsible for reading and obtaining an understanding of this Policy. Employees uncertain about the application or interpretation of the

contents of this Policy should obtain clarification from their immediate supervisor, SCAG's Internal Auditor or any department head.

B. *Managers*

All Managers are responsible for discussing the contents of this Policy with their employees, as needed. Any questions regarding this Policy should be addressed to the appropriate Manager. Any Manager who is informed by an employee of a violation, or potential violation, of this Policy is required to report the matter to the Internal Auditor.

C. *Directors*

All Directors are responsible for knowing the contents of this Policy and are required to be prepared to competently address any concerns or questions raised by any employee. Any Director who is informed by an employee of a violation, or potential violation, of this Policy is required to report the matter to the Internal Auditor.

D. *Human Resources Department*

The Human Resources Department is responsible for posting this Policy on the SCAG Intranet and ensuring written acknowledgment of the Policy by all employees. In consultation with the Legal Services Group, it is also responsible for updating this Policy when appropriate.

E. *Internal Auditor*

SCAG's Internal Auditor is responsible for monitoring compliance of this Policy through internal audits that are regularly performed.

F. *Chief Counsel*

SCAG's Chief Counsel will conduct an investigation, or authorize the conduct of an investigation, of alleged violations of this Policy as reported by the Internal Auditor. If the alleged violation involves the Legal Services Group, the Internal Auditor shall report the matter to the Executive Director. The Executive Director, or his/her designee, shall conduct the investigation, or otherwise authorize the conduct of an investigation.

Section 5 Professionalism.

A. It is up to each SCAG employee to maintain a professional, safe and productive work environment. SCAG employees shall treat each other professionally and with courtesy at all times. Differences of opinion on work issues should be expressed in a constructive manner that promotes sharing of ideas and effective teamwork to resolve problems to meet the challenges of SCAG.

B. SCAG employees should be diligent in taking personal responsibility for their professional behavior by adhering to the following standards:

(1) Act with courtesy, integrity, competence, and respect in an ethical manner when dealing with the public and fellow employees. Drinking of alcoholic

beverages or use of controlled substances, gambling, fighting, and similar unprofessional conduct are prohibited on SCAG premises. *See also, SCAG Personnel Rules, Rule 14.8 (Alcohol and Drug Abuse Policy) and Rule 14.14 (Workplace Violence Policy).*

- (2) Be aware of and comply with applicable statutes, ordinances, regulations, and other legal requirements.
- (3) Do not engage in sexual harassment, or conduct oneself in a way that could be construed as such. (For example, by using inappropriate language, keeping or posting inappropriate materials in the work area, or accessing inappropriate materials on the computer.) *See also, SCAG Personnel Rules, Rule 12.0 (Equal Employment Opportunity and Anti-Harassment Policies) and Rule 14.6 (Computer, Electronic Mail and Internet Policy).*

Section 6 SCAG Funds and Other Assets.

- A. Employees who have access to SCAG's funds in any form must follow the prescribed procedures for recording, handling, and protecting money as detailed in SCAG's instructional manuals or other explanatory materials, or both. SCAG imposes strict standards to prevent fraud and dishonesty. *See also, SCAG Accounting Manual, Sections 5.11 (Petty Cash), 5.12 (Vending Machine Receipts) and 5.4.6 (Cash Receipts).*
- B. When an employee's position requires the spending of SCAG's funds or incurring any reimbursable personal expenses, that individual must use good judgment on the behalf of SCAG to ensure that fair value is received for any expenditure. *See also, SCAG Travel Policy and Guidelines.*
- C. SCAG's funds and all other assets of SCAG are for SCAG's purposes and not for personal use. This includes the personal use of SCAG's assets, such as vehicles and computers. *See also, SCAG Personnel Rules, Rule 13.7 (Use of SCAG Facilities or Property) and SCAG Vehicle Usage Policy.*

Section 7 Conflict of Interest.

- A. SCAG employees shall not engage in any activity or enterprise for compensation which is inconsistent, incompatible, in conflict with or inimical to his or her duties at SCAG. A conflict of interest, or at least an appearance of a conflict of interest, exists when the interest, investments, outside employment or personal enterprises of the employee or a member of his or her immediate family could compromise the employee's duty of loyalty, or otherwise conflict with, or appear to conflict with his or her job performance, objectivity, impartiality or ability to make fair business decisions in the best interest of SCAG. Employees should avoid investing in or acquiring a financial interest in any business organization that has a contractual relationship with SCAG, or that provides goods or services, or both to SCAG, if such investment or interest could influence their decisions in the performance of their duties on behalf of SCAG. If an employee senses that a course of action he/she has pursued, is presently pursuing, or is contemplating pursuing may involve them in a conflict of interest with SCAG, they should immediately communicate all the facts to their immediate supervisor. *See also,*

SCAG Conflicts of Interest Policy and SCAG Personnel Rules, Rule 13.5 (Federal Contracts) and Rule 13.6 (Disqualification of Former SCAG Employees).

- B. Employees must not use their position or the knowledge gained as a result of their position for private or personal gain or advantage. Such action would be in conflict with the interests of SCAG. *See also, SCAG Personnel Rules, Rule 13.2 (Private Gain or Advantage).*

- C. ***Outside Activities and Employment***

All employees share a responsibility for SCAG's good public relations, especially at the community level. An employee's ability to help with charitable, educational, and civic activities brings credit to SCAG and is encouraged. Employees must, however, avoid acquiring any business interest or participating in any other activity outside of SCAG that would (1) create excessive demand upon their time and attention, thus depriving SCAG of their best efforts on the job; and/or (2) create a conflict of interest, an obligation, interest, or distraction that may interfere with their ability to make independent job-related decisions that are in the best interests of SCAG. *See also, SCAG Personnel Rules, Rule 13.1 (Outside Employment) and Rule 13.2 (Political Activity).*

- D. ***Gifts, Favors or Preferential Treatment; Travel Payments***

Employees must not accept or solicit gifts, personal favors, or preferential treatment that could influence business decisions in favor of any person or organization with whom or with which SCAG has, or is likely to have, business dealings. The payment or reimbursement for travel, lodging and meals may be considered a gift for purposes of this Policy, unless it is paid by SCAG for business travel. *See also, SCAG Personnel Rules, Rule 13.4 (Gifts and Gratuities) and SCAG Travel and Policy Guidelines.*

- E. ***Restrictions upon Leaving SCAG***

Former employees, for a period of one (1) year after their employment with SCAG has ceased, are prohibited from representing any person or entity (other than SCAG) in connection with any legal proceeding. Former employees, for a period of one (1) year after their employment with SCAG has ceased, are also prohibited from participating in bidding to SCAG, participating in consultant work funded by or through SCAG, or otherwise using their former SCAG position to influence any decision relating a SCAG contract. *See also, SCAG Personnel Rules, Rule 13.6 (Disqualification of Former SCAG Employees).*

- F. ***Conflict of Interest Code***

SCAG has adopted a Conflict of Interest Code (Code), a copy of which is attached hereto as Appendix "A." The provisions of this Code are additional to California Government Code Section 87100 and the state laws pertaining to conflicts of interest. Each person holding a designated position listed in the Code shall file annually a Statement of Economic Interests (Form 700) disclosing his/her interest in investments, business positions, real property and income designated as reportable under the category to which his/her position is assigned and otherwise comply with the Code. Although SCAG's Officer of Regional Council Support oversees this process, it is the responsibility of each person holding a designated position as stipulated in the Code to comply with this filing requirement.

Section 8 Nepotism; Personal Relationships.

Employees shall adhere to SCAG's rules regarding nepotism. Romantic or sexual relationships between employees where one individual has control over the other's conditions of employment (e.g. supervisor and subordinate staff) are discouraged and should be avoided. *See also, SCAG Personnel Rules, Rule 14.3 (Nepotism Policy) and Rule 12.2.3 (Definition of 'Environmental' Harassment).*

Section 9 SCAG Records and Communications.

Accurate and reliable records of many kinds are necessary to manage the affairs of SCAG and to meet SCAG's legal and financial obligations. SCAG's books and records must reflect in an accurate and timely manner all business transactions. The employees responsible for accounting and record keeping must fully disclose and record all assets, liabilities, or both, and must exercise diligence in enforcing these requirements. Employees must not make any false record or engage in any false communication, whether internal or external, including but not limited to, false expense, attendance, production, financial, or other misleading representations. *See also, SCAG Accounting Manual, Section 1.91 (Financial Records and Retention).*

All employees must make every effort to achieve complete, accurate, and timely communications, responding promptly and courteously to all proper requests for information and to all complaints.

Section 10 Privacy and Confidentiality.

A. When handling financial and personal information about SCAG employees, elected officials or others with whom SCAG has dealings, observe the following principles:

- (1) Collect, use, and retain only the personal information necessary for SCAG's business. Whenever possible, obtain any relevant information directly from the person concerned. Use only reputable and reliable sources to supplement this information.
- (2) Retain information only for as long as necessary or as required by law. Protect the physical security of this information.
- (3) Limit internal access of personal information to those with a legitimate business reason for seeking that information.
- (4) Safeguard proprietary and confidential information except when disclosure is authorized or required by law.

See also, SCAG Personnel Rules, Rule 14.13(Ownership of Intellectual Property and Non-Disclosure of Confidential Information).

Section 11 Whistleblower Protection; Reporting of Unethical or Fraudulent Activity.

- A. SCAG is committed to fair treatment of all its employees and recognizes its responsibility under state and federal law to protect from punishment and harassment any person who reports a potential ethics issue or a violation of law, whether or not the allegation is found to have merit.
- B. If a SCAG employee becomes aware, or even suspicious, of any activity which appears to be unethical, fraudulent or in violation of this Policy, he/she should immediately advise their immediate supervisor, any department head or SCAG's Internal Auditor. An employee may also call SCAG's Ethics Hotline at (213) 236-1979 or extension 979. An anonymous message may be left on the Ethics Hotline voicemail system. SCAG's Internal Auditor shall be responsible for monitoring messages left on the Ethics Hotline.
- C. Employees will not make malicious or fabricated allegations of violations of this Policy. Employees will also not retaliate in any way against any other employee who brings forth an allegation of violation of this Policy. Any employee who makes a malicious or fabricated allegation, or who retaliates against an employee for bringing forward an allegation, may be subject to disciplinary action.

Section 12 Investigation; Corrective/Disciplinary Action.

- A. SCAG's Chief Counsel will conduct, or authorize the conduct of, an investigation of an allegation of violations of this Policy. The investigation will be conducted in a manner that ensures, to the extent feasible, the privacy of the parties involved.
- B. The Chief Counsel shall prepare a written report as a result of the investigation for the Executive Director. The Executive Director will determine whether the Policy has been violated, and communicate the conclusion and any required corrective action to the alleged violator. If discipline is required, disciplinary action shall be decided in accordance with SCAG's Personnel Rules.
- C. If the investigation involves the Executive Director, the written report by the Chief Counsel shall be provided to SCAG's President and other Officers. The SCAG President and other Officers will determine whether the Policy has been violated, and communicate the conclusion and any required corrective action to the Executive Director. If discipline is required, disciplinary action shall be decided in accordance with SCAG's Personnel Rules.

SCAG ETHICS POLICY

Approved by Regional Council - April 2, 2009

[Revisions to be Considered by Audit Committee November 14, 2017](#)

Section 1 Purpose.

The Southern California Association of Governments (SCAG) is a public agency that shall conduct its business with integrity and in an honest and ethical manner. This Ethics Policy (Policy) describes the minimum conduct of work expected of all SCAG employees. SCAG expects that employees will perform their duties conscientiously, honestly, and demonstrate the highest standards of personal integrity and professionalism. This Policy may include subjects that are addressed in other SCAG rules and policies. In such cases, the respective rule or policy is referenced in order for the reader to obtain additional information regarding that particular subject matter. All referenced rules and policies are available to SCAG employees via the SCAG Intranet ("[SCAGhub](#)") under "Policies & Procedures."

Section 2 General Policy.

- A. It is the policy of SCAG that all employees must, at all times, comply with this Policy and all applicable laws and regulations.
- B. All business conduct shall be in compliance with this Policy, all applicable laws and regulations, and the exercise of good judgment based upon SCAG's [mission](#), values and goals. ~~C. SCAG will not condone any employee who violates this Policy or any applicable law or regulation, or otherwise engages in unethical business dealings. This includes, [but is not limited to fraud, waste, abuse](#), payment in consideration of illegal acts, indirect compensation, kickbacks and bribery.~~
- D. Employees who violate this Policy may be subject to disciplinary action up to, and including, termination and/or criminal prosecution.

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Section 3 Scope.

This Policy is applicable to all SCAG employees current and new hires. All employees shall receive a copy of this Policy, and shall acknowledge receipt of this Policy in writing as part of new employee orientation and annually. [In addition, employees shall attest to acknowledging the policy on an annual basis.](#)

Section 4 Responsibilities.

- A. **Employees**
Every employee is responsible for reading and obtaining an understanding of this Policy. Employees uncertain about the application or interpretation of the contents of this Policy should obtain clarification from their immediate supervisor, SCAG’s Internal Auditor, or any department head.
- B. **Managers**
All Managers are responsible for discussing the contents of this Policy with their employees, as needed. Any questions regarding this Policy should be addressed to the appropriate Manager. Any Manager who is informed by an employee of a violation, or potential violation, of this Policy is required to report the matter to the Internal Auditor.
- C. **Directors**
All Directors are responsible for knowing the contents of this Policy and are required to be prepared to competently address any concerns or questions raised by any employee. Any Director who is informed by an employee of a violation, or potential violation, of this Policy is required to report the matter to the Internal Auditor.
- D. **The Human Resources Department**
The Human Resources Department is responsible for posting this Policy on the SCAG Intranet and ensuring written acknowledgment of the Policy by all employees.
- E. **Internal Auditor**
SCAG’s Internal Auditor is responsible for monitoring compliance of this Policy through internal audits that are regularly performed. [The Internal Auditor is also the primary recipient of complaints submitted through the Ethics and Compliance Hotline, and plays a key role in the Hotline Complaint Review Process as described in Section 12 herein.](#)
- F. **Chief Counsel**
SCAG’s Chief Counsel [or Manager of Human Resources](#) will conduct an investigation, or authorize the conduct of an investigation, of alleged violations of this Policy as reported by the Internal Auditor. [The process for investigation is described in Section 12 herein. In consultation with the Internal Auditor and other staff, the Chief Counsel is also responsible for updating this Policy when appropriate.](#)

Deleted: In consultation with the Legal Department, it is also responsible for updating this Policy when appropriate.

Deleted: If the alleged violation involves the Legal Department, the Internal Auditor shall report the matter to the Executive Director. The Executive Director, or his/her designee, shall conduct the investigation, or otherwise authorize the conduct of an investigation.

Section 5 Professionalism.

- A. It is up to each SCAG employee to maintain a professional, safe, and productive work environment. SCAG employees shall treat each other professionally and with courtesy at all times. Differences of opinion on work issues should be

expressed in a constructive manner that promotes sharing of ideas and effective teamwork to resolve problems to meet the challenges of SCAG.

- B. SCAG employees should be diligent in taking personal responsibility for their professional behavior by adhering to the following standards:
- (1) Act with courtesy, integrity, competence, and respect in an ethical manner when dealing with the public and fellow employees. Drinking of alcoholic beverages or use of controlled substances, gambling, fighting, and similar unprofessional conduct are prohibited on SCAG premises. *See also, SCAG Personnel Rules, Rule 14.8 (Alcohol and Drug Abuse Policy) and Rule 14.14 (Workplace Violence Policy).*
 - (2) Be aware of and comply with applicable statutes, regulations, and other legal requirements [as they relate to specific work functions](#).
 - (3) Do not engage in sexual harassment, or conduct oneself in a way that could be construed as such. (For example, by using inappropriate language, keeping or posting inappropriate materials in the work area, or accessing inappropriate materials on the computer.) *See also, SCAG Personnel Rules, Rule 12.0 (Equal Employment Opportunity and Anti-Harassment Policies) and Rule 14.6 (Computer, Electronic Mail and Internet Policy).*

Section 6 SCAG Funds and Other Assets.

- A. Employees who have access to SCAG's funds in any form must follow the prescribed procedures for recording, handling, and protecting money as detailed in SCAG's instructional manuals or other explanatory materials, or both. SCAG imposes strict standards to prevent fraud and dishonesty. *See also, SCAG Accounting Manual, Sections 5.11 (Petty Cash), 5.12 (Vending Machine Receipts) and 5.4.6 (Cash Receipts).*
- B. When an employee's position requires the spending of SCAG's funds or incurring any reimbursable personal expenses, that individual must use good judgment on the behalf of SCAG to ensure that fair value is received for any expenditure. *See also, SCAG Travel Policy and Guidelines.*
- C. SCAG's funds and all other assets of SCAG are for SCAG's purposes and not for personal use. This includes the personal use of SCAG's assets, such as vehicles and computers. *See also, SCAG Personnel Rules, Rule 13.7 (Use of SCAG Facilities or Property) and SCAG Vehicle Usage Policy.*

Section 7 Conflict of Interest.

- A. SCAG employees shall not engage in any activity or enterprise for compensation which is inconsistent, incompatible, in conflict with, or inimical to his or her duties at SCAG. A conflict of interest, or at least an appearance of a conflict of interest, exists when the interest, investments, outside employment, or personal enterprises of the employee, or a member of his or her immediate family could compromise the employee's duty of loyalty, or otherwise conflict with, or appear to conflict with his or her job performance, objectivity, impartiality or ability to make fair business decisions in the best interest of SCAG. Employees should

avoid investing in or acquiring a financial interest in any business organization that has a contractual relationship with SCAG, or that provides goods or services, or both to SCAG, if such investment or interest could influence their decisions in the performance of their duties on behalf of SCAG. If an employee senses that a course of action he/she has pursued, is presently pursuing, or is contemplating pursuing may involve them in a conflict of interest with SCAG, they should immediately communicate all the facts to their immediate supervisor. *See also, SCAG Conflicts of Interest Policy and SCAG Personnel Rules, Rule 13.5 (Federal Contracts) and Rule 13.6 (Disqualification of Former SCAG Employees).*

- B. Employees must not use their position or the knowledge gained as a result of their position for private or personal gain or advantage. Such action would be in conflict with the interests of SCAG. *See also, SCAG Personnel Rules, Rule 13.2 (Private Gain or Advantage).*
- C. ***Outside Activities and Employment***

All employees share a responsibility for SCAG's good public relations, especially at the community level. An employee's ability to help with charitable, educational, and civic activities brings credit to SCAG, and is encouraged. Employees must, however, avoid acquiring any business interest or participating in any other activity outside of SCAG that would: (1) create excessive demand upon their time and attention, thus depriving SCAG of their best efforts on the job; and/or (2) create a conflict of interest, an obligation, interest, or distraction that may interfere with their ability to make independent job-related decisions that are in the best interests of SCAG. *See also, SCAG Personnel Rules, Rule 13.1 (Outside Employment) and Rule 13.2 (Political Activity).*
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SCAG has adopted a Conflict of Interest Code (Code), a copy of which is attached hereto as Appendix "A." The provisions of this Code are additional to California Government Code Section 87100 and the state laws pertaining to conflicts of interest. Each person holding a designated position listed in the Code shall file annually a Statement of Economic Interests (Form 700) disclosing

his/her interest in investments, business positions, real property and income designated as reportable under the category to which his/her position is assigned and otherwise comply with the Code. Although SCAG's Office of Regional Council Support oversees this process, it is the responsibility of each person holding a designated position as stipulated in the Code to comply with this filing requirement.

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All employees must make every effort to achieve complete, accurate, and timely communications, responding promptly and courteously to all proper requests for information and to all complaints.

Section 10 Privacy and Confidentiality.

- A. When handling financial and personal information about SCAG employees, elected officials or others with whom SCAG has dealings, observe the following principles:
- (1) Collect, use, and retain only the personal information necessary for SCAG's business. Whenever possible, obtain any relevant information directly from the person concerned. Use only reputable and reliable sources to supplement this information.
 - (2) Retain information only for as long as necessary or as required by SCAG's Records Retention Schedule contained in the Records Management Handbook available on the SCAG Intranet. Protect the physical security of this information.
 - (3) Limit internal access of personal information to those with a legitimate business reason for seeking that information.

- (4) Safeguard proprietary and confidential information except when disclosure is authorized or required by law.

See also, SCAG Personnel Rules, Rule 14.13(Ownership of Intellectual Property and Non-Disclosure of Confidential Information, Records Management Policy).

Section 11 Whistleblower Protection; Reporting of Unethical or Fraudulent Activity.

- A. SCAG is committed to fair treatment of all its employees and recognizes its responsibility under state and federal law to protect from punishment and harassment any person who reports a potential ethics issue or violation of law, whether or not the allegation is found to have merit.
- B. If a SCAG employee becomes aware, or even suspicious, of any activity which appears to be unethical, fraudulent or in violation of this Policy, he/she should immediately advise their immediate supervisor, any department or division head or SCAG's Internal Auditor. An employee may also report a violation through SCAG's Ethics Hotline. The Ethics Hotline is operated and managed by an independent third party and may be accessed by:
Phone 1-866-620-0005
Email reports@lighthouse-services.com/scag
Regular Mail: Lighthouse Services, Inc., 1710 Walton Road, Suite 204, Blue Bell, PA 19422

Deleted: call SCAG's Ethics Hotline at (213) 236-1979 or extension 979. An anonymous message may be left on the Ethics Hotline voicemail system.

SCAG's Internal Auditor shall be responsible for monitoring Ethics, _____ Complaints made through the Hotline. On a quarterly basis, the Internal Auditor will provide a summary report to SCAG's Audit Committee regarding the number of reports to the Hotline, category of reports, and general disposition.

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- C. Employees will not make malicious or fabricated allegations of violations of this policy. Employees will not retaliate in any way against any other employee who brings forth an allegation of violation of this Policy. Any employee who makes a malicious or fabricated allegation, or who retaliates against an employee for bringing forward an allegation, may be subject to disciplinary action up to and including discharge.

Section 12 Investigation; Corrective/Disciplinary Action.

- A. SCAG's Chief Counsel will conduct, or authorize the conduct of, an investigation of any allegation of violations of this Policy. The investigation will be conducted in a manner that ensures, to the extent feasible, the privacy of the parties involved.
- B. The Chief Counsel shall prepare a written report as a result of the investigation for the Executive Director or his/her designee. The Executive Director or his/her designee will determine whether a violation has occurred, and communicate the conclusion and any required corrective action will be handled by the appropriate level of agency management. If discipline is required, disciplinary action shall be

decided in accordance with SCAG's Personnel Rules or the appropriate employment contract, should the employee not be subject to SCAG's Personnel Rules.

- C. If the investigation involves the Executive Director, the written report by the Chief Counsel shall be provided to SCAG's President and other Officers. The SCAG President and other Officers will determine whether a violation has occurred, and communicate the conclusion and any required corrective action to the Executive Director. If discipline is required, disciplinary action shall be decided in accordance with the Executive Director's employment contract.

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REPORT

DATE: November 14, 2017

TO: Audit Committee

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

SUBJECT: Fiscal Year (FY) 2016-17 Preliminary External Financial Audit Report

RECOMMENDED ACTION:

For Information Only – No Action Required.

EXECUTIVE SUMMARY:

SCAG's external independent auditor will present the preliminary FY 2016-17 audit report.

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, Varinek, Trine, Day, and Company, LLP (VTD), have completed their audit of SCAG's FY 2016-17 financial statements. They will present their preliminary audit report to the Committee.

FISCAL IMPACT:

None.

ATTACHMENT:

FY 2016-17 Preliminary External Financial Audit Report.

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Southern California Association of Governments

Auditor Communications

This information contained herein is intended solely for the information and use of the Audit Committee, Members of the Regional Council and management of the Southern California Association of Governments (SCAG) and is not intended to be, and should not be, used by anyone other than these specified parties.

Audit Scope and Timing

Perform the audit of the:

- Comprehensive Annual Financial Report (CAFR)
 - In accordance with U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*
- OMB Uniform Grant Guidance – Single Audit

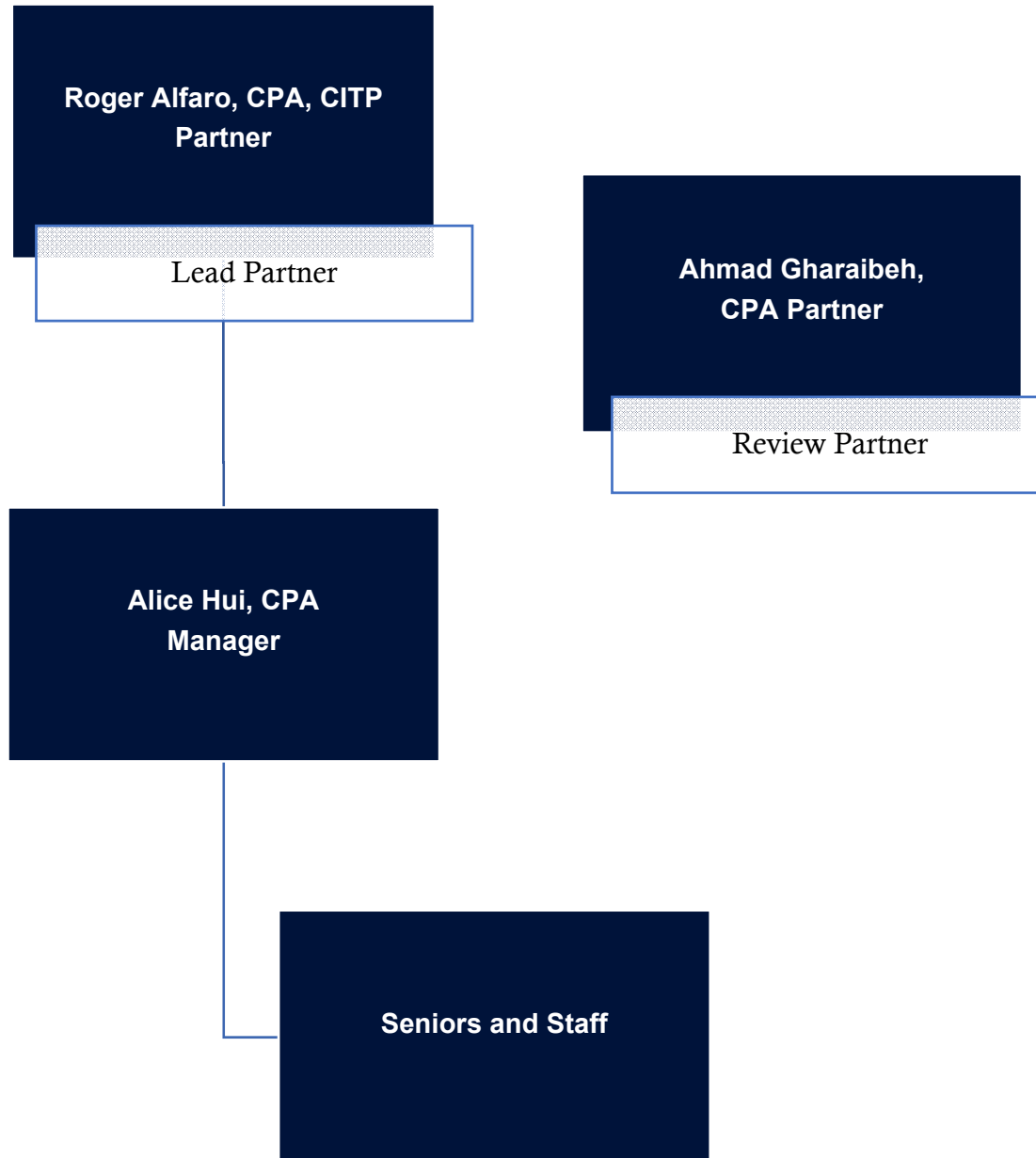
Timeline:

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

Our Responsibility

- Our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles.
- Our audit of the financial statements does not relieve you or management of your responsibilities.
- Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.
- We considered the internal control of SCAG . Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

VTD Audit Team



Our Approach

Planning and Risk Assessment:

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

Year End Fieldwork:

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

Summary of Audit Results

Reports Currently in Draft

- Unmodified Opinion on the CAFR
- Internal Control Over Financial Reporting and Compliance and Other Matters
 - No Material Weaknesses Reported
 - No Instances of Noncompliance Reported
- Single Audit (Uniform Guidance)
 - Major Program – CFDA No. 20.205 *Highway Planning and Construction Cluster*
 - No Material Weaknesses Reported
 - Unmodified Opinion on Compliance

Required

Communications

- No new accounting policies were adopted during the year.
- We noted no transactions entered into by during the year for which there is a lack of authoritative guidance or consensus.
- No corrected or uncorrected misstatements were reported.
- Sensitive Estimates – Net Pension Liabilities
- We encountered no significant difficulties in dealing with management in performing and completing our audit.
- We are pleased to report that no disagreements arose during the course of our audit.
- We have requested certain representations from management that are included in the management representation letter.
- To our knowledge, there were no such consultations with other accountants.

Required Communications

- Other Data Contained in the Financial Statements

Required Supplementary Information	<ul style="list-style-type: none">• No opinion or assurance is provided
Supplementary Information	<ul style="list-style-type: none">• In-relation-to assurance is provided
Other Information	<ul style="list-style-type: none">• No opinion or assurance is provided

Contact Information

Roger Alfaro, Partner

ralfaro@vtdcpa.com

909-466-4410

VALUE THE *difference*

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REPORT

DATE: November 14, 2017

TO: Audit Committee

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

SUBJECT: Review of Extended Warranties and Software Agreements

RECOMMENDED ACTION:

For Information Only – No Action Required.

EXECUTIVE SUMMARY:

SCAG lacks clear guidance related to extended warranties and software agreements, making it difficult to determine how much SCAG has spent on both.

STRATEGIC PLAN:

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

INTRODUCTION:

Project management and Information Technology (IT) have been identified as high risk areas by SCAG's Audit Committee and management team.¹ This review focused on practices surrounding the purchase and management of extended warranties and software agreements, which are related to both project management and IT. A fundamental reason for the review is to gain an understanding of SCAG's practices related to extended warranties and software agreements. A secondary reason is determine if SCAG is paying for warranties or agreements on any equipment or software that may no longer be used.

SCOPE AND METHODOLOGY:

I performed a review rather than an audit because early in the process of gathering information, I noticed that SCAG does not clearly or consistently track extended warranties separately. This made it challenging to identify a comprehensive list of extended warranties. Further, SCAG does not seem to track or isolate costs related to software in a consistent manner, thereby making it difficult to identify overall costs. As such, the objectives of this review are to identify current practices related to extended warranties and software agreements, and highlight any potential areas of improvement. For this review, I consulted SCAG's *Accounting Manual* and *Procurement Policy & Procedures Manual*.² I also met with staff from the Accounting and Contracts departments as well as the IT division to discuss current practices related to extended warranties and software agreements. For the purposes of this report, I use the term software agreement to include both the use of software as well as any software support, including software maintenance, provided by a vendor.

¹I 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. Project management rated the second highest in terms of risk (IT was rated the highest).

²SCAG, *Accounting Manual Policies and Procedures* (May 18, 2017) and *Procurement Policy & Procedures Manual*, (Revised Dec. 12, 2016).

EXTENDED WARRANTIES:

SCAG does not seem to track extended warranties separately with regard to cost on a clear or consistent basis. According to Accounting and Contracts department staff, extended warranties can be included with equipment purchases. They noted that a single purchase order (PO) can be used for the purchase of equipment with warranties—typically the purchase order would list equipment amounts and warranty amounts. In one example I reviewed, SCAG purchased scanners with a three year warranty via single PO. Although the PO itemized the equipment and warranty costs, the PO authorized the total amount to be charged to one project. How costs are captured as part of the project is unclear. Contracts department staff also mentioned that extended warranties are not always purchased with equipment, because SCAG may already have a maintenance agreement in place with a vendor that can provide assistance regarding the purchased equipment (such as maintenance).

The Contracts department maintains a list of extended warranties. This list does not appear comprehensive (only five documents listed) and is relatively old (the documents are dated from 2013, and two of them appear to have expired in 2016). Further, there does not seem to be a straightforward method for cross-referencing the list with information in SCAG’s accounting system so as to determine how much the warranties cost and when they were paid. There is no other information, such as associated POs, included with that list of extended warranties to help identify associated costs. SCAG’s Chief Information Officer (CIO) indicated that the IT division tracks software and hardware maintenance as well as extended warranty agreements in two projects that are included in SCAG’s direct and indirect budget. However, the projects can consist of tasks that include multiple cost categories—not just software purchases and warranties. As such, POs that charge to these projects can include multiple items. This makes it difficult to find and identify POs related to extended warranties so as to ascertain total costs.

Without access to POs, it is difficult to identify whether an extended warranty was purchased as well as isolate warranty costs from equipment costs.³ In some cases, staff who request equipment may have a copy of the PO for the purchase, making it relatively easy to identify whether an extended warranty was included with the purchase. Although the Contracts department maintains a PO list, Contracts department staff indicated that the total number of POs for a single fiscal year is rather large, so tracking down a specific PO would be difficult. Further, not all POs are maintained electronically.

Accounting department staff maintains a list of prepaid expenses, which is how an extended warranty would typically be expensed (e.g. a three-year warranty would typically be expensed over 36 months/until the end of the warranty). However, this list does not fully describe all prepaid expenses (e.g. indicating what the prepaid expense is) or cross-reference POs, making it challenging to identify which of the expenses are extended warranties.

³There are some work-arounds to help identify extended warranties without having access to a PO, but they can be time-consuming. For instance, if a vendor name and time frame of an equipment purchase is known, I can run a query on SCAG’s accounting system to locate invoices and payments made to that vendor during a specific time frame. The invoices may contain descriptions of what SCAG purchased, such as a warranty. The invoice should reference a PO as well. However, (1) because not all POs are maintained electronically, and (2) because they are maintained separately, it is hard to access them.

SCAG lacks overall guidance regarding extended warranties, such as determining the extent they should be used, or how they should be recorded. For instance, SCAG's *Policies & Procurement Manual* does not discuss extended warranties. Further, SCAG's *Accounting Manual* does not discuss extended warranties as well as what is to be included in prepaid expenses.

Without clearly and consistently tracking extended warranties, it is difficult to determine the extent to which SCAG has paid warranties for equipment it no longer uses. Further, it is unclear when extended warranties should be included with equipment purchases.

SOFTWARE AGREEMENTS:

With regard to software agreements, SCAG's current practices do not seem to facilitate easy analysis of overall costs. SCAG does not seem to track overall costs associated for specific software (that is, total amount paid to acquire, use, and maintain the software). For instance, I could not locate a list of software that identified total amount spent on the software or that referenced documents which would contain cost information, such as POs.⁴ As such, I used current lists of software agreements maintained by the Contracts department and IT division to see how I could identify total costs associated with software used by SCAG.

I requested a current list of software agreements from both the Contracts department and IT division. These lists did not include cost-related information. Upon comparison, the lists did not match. The Contracts department maintains a list of actual software agreements on SCAG's shared drives, whereas the IT division maintains an Excel spreadsheet that lists agreements by vendor. The Contracts department folder contained 36 documents, while the IT division list included 49 agreements. According to IT division staff, one reason the lists do not match is likely due to SCAG purchasing and/or renewing software via the agency's credit card (the Contracts department is authorized to use SCAG's credit card for purchases). These types of purchases do not require a PO. The IT division list did not indicate how SCAG paid for the software agreement.

According to Contracts department staff, every time SCAG renews a software agreement, SCAG generates a new PO. However, this does not include software-related purchases made via SCAG credit card. SCAG tends to track invoices from, and payments to, vendors that supply software as well as provide software support rather than track costs associated with a specific piece of software.⁵ For one of the software agreements on the list provided by the IT Division, I tried to determine total costs related to the agreement by making queries in SCAG's accounting system using the name of the SCAG vendor. I found that SCAG paid a vendor monthly for use of software, and a PO was generated for each monthly payment. I would need to add up each monthly payment over for the duration of the payments to derive the total cost for the service agreement. In another instance, I found SCAG had paid for annual software support—software maintenance—using a single PO rather than issuing separate POs over the term of support. Unlike the first example, no POs were generated over the course of the support agreement. In order to identify the total

⁴In addition to showing authorization for purchase, a PO would also include a description of the items to be purchased, such as software licensing renewals or software maintenance. Matching POs with invoices is a typical internal control.

⁵There are some work-arounds to help identify software agreement costs. For instance, if a vendor name and time frame of payment is known, I could run a query on SCAG's accounting system to try and locate invoices from, and payments made to, that vendor during a specific time frame. I would then need to sum all payments related to software purchase, license renewals, and maintenance to come up with an overall cost.

costs, I would have had to check invoices and payments in the accounting system going back to the inception of the PO, which would have been a lengthy task given that the PO was a few years old.

As mentioned above, SCAG's CIO noted that the IT division tracks software maintenance as part of two projects in SCAG's direct and indirect budget, but these projects contain multiple tasks and cost categories. As such, POs that charge to these projects can include multiple items. This makes it difficult to identify POs that are related to a specific piece of software so as to ascertain total costs.

SCAG has limited guidance regarding acquisition and management of software, to include software agreements. According to SCAG's *Procurement Policy & Procedures Manual*, IT-related hardware, peripherals, and software must be submitted to SCAG's IT division for review and approval. The manual also states that any orders for computer equipment charged to a specific project require review and approval from SCAG's CIO. However, it is unclear what is included in the reference to computer equipment; the assumption is hardware and software. The CIO mentioned that the IT division does not have its own policies or procedures related to software agreements, and relies on the *Procurement Policy & Procedures Manual*. This manual does not discuss how overall software costs, to include software agreements, are to be tracked. As such, it is unclear how SCAG tracks such costs, including who should be tracking the costs, such as project managers requesting the software or the IT division.⁶

CONCLUSION:

SCAG lacks clear guidance on how to manage extended warranties and software agreements. One result is that SCAG does not track extended warranties in a clear and consistent manner, making it difficult to identify the extent to which SCAG is paying warranties for equipment not in use, as well as the extent to which SCAG should include warranties when purchasing equipment. With regard to software agreements, it is challenging to identify total costs associated with software use. Further, it is unclear who should be responsible for tracking overall software costs as well as how costs should be tracked. Without clear tracking of such costs, it is difficult to determine whether SCAG is getting an effective return on investment. It is also difficult to ascertain what part of a project's total cost is related to software use. As SCAG updates its policies and procedures, it should consider ways to address documentation of costs associated with extended warranties and software agreements, so as to allow for identification of overall costs. This can include a written process that provides clarity regarding roles and responsibilities regarding the tracking of costs.

FISCAL IMPACT:

None

⁶During the course of this review, potential areas for follow-up relate to independent confirmation regarding use of software and adherence to software agreement terms and conditions. Other than confirmation from project managers regarding their use of software, there does not seem to be any checks as to frequency of software use (i.e. how often is the software used). Also, it is unclear how SCAG ensures staff are adhering to the terms and agreements of current software agreements (e.g. limited number of users, limited number of download, restricted personal use, etc.).

REPORT

DATE: November 14, 2017
TO: Audit Committee
FROM: Josh Margraf, Internal Auditor, (213) 236-1890, margraf@scag.ca.gov
SUBJECT: Internal Audit Status Report

RECOMMENDED ACTION:
For Information Only – No Action Required.

EXECUTIVE SUMMARY:
The Internal Auditor will describe work performed since the last Audit Committee meeting.

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

BACKGROUND:
Since the last Audit Committee meeting in September 2017, Internal Audit has assisted the Contracts Department with preaward reviews, monitored the Ethics Hotline, and performed a review of extended warranties and software agreements.

Preaward Reviews
The following four preaward audits have been performed.

<u>Consultant (Contract Number)</u>	<u>Proposal Amount</u>	<u>Questioned Costs</u>	<u>Questioned Costs Sustained</u>
KTUA (17-030-C1)	\$446,055	\$16,278	\$16,278
Raimi and Associates (18-001-B19)	\$149,943	\$2,588	\$2,588
Fehr & Peers (18-001-B20)	\$174,807	-0-	-0-
Alta Planning + Design (18-001-B42)	\$50,000	-0-	-0-
Alta Planning + Design (18-001-B50)	\$599,753	\$3,704	\$3,704
Totals	\$1,420,558	\$22,570	\$22,570

Internal Audit also provided assistance to the Contracts department by reviewing consultant information for one request for proposal.¹ This included procedures for verifying direct labor rates as well as indirect rates and other direct costs.

Ethics Hotline
Since the last Audit Committee meeting on September 9, 2017, SCAG has received six reports through the Ethics Hotline. This brings the total number of cases reported via the Ethics Hotline to 18. Five cases have been closed due to reported information being unsubstantiated as well as lack of detailed information provided via the hotline.

¹RFP 18-044-C1.

Project Management Policies and Procedures

SCAG has identified key policies and procedures in need of review and updates. Project management and procurement have been highlighted as areas that require updated guidance. SCAG's executive and management team have met to prioritize updates to policies and procedures documents as well as discuss time frames for achieving the updates. SCAG is currently in the process of finalizing a schedule to include project management and procurement policies and procedures. Internal Audit will continue to apprise the Audit Committee on the status of revising the policies.

Agenda Items

A report on SCAG practices related to extended warranties and software agreements is included in today's agenda, as is a report on updates to SCAG's *Internal Audit Charter*. Further, a report on updates to SCAG's *Ethics Policy* is included on the agenda. Finally, Varinek, Trine, Day, and Company, LLP (VTD)—SCAG's external audit firm—will provide a report on preliminary findings related to its audit of SCAG's fiscal year 2017 financial statements.

FISCAL IMPACT:

None

ATTACHMENT:

None