



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, November 29, 2016
2:30 p.m. – 4:00 p.m.

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

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

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.

Audit Committee Membership November 2016

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. Carl Morehouse, San Buenaventura
7. Hon. Greg Pettis, Cathedral City
8. Hon. Edward H. J. Wilson, Signal Hill

Representing

SANBAG, SCAG, 2nd Vice-President
District 16, SCAG, President
District 35, SCAG 1st Vice-President
District 1, SCAG, Imm. President
District 46
District 47
District 2
Gateway Cities COG

Teleconference Locations

Hon. Margaret Finlay
2221 Rim Road
Duarte, CA 91008

Hon. Michele Martinez
300 W. 2nd Street
Santa Ana, CA 92701

Hon. Cheryl Viegas-Walker
290 13th Street, Apt. 3
Brooklyn, NY 11215

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

Videoconference Locations

Ventura County SCAG Office
950 County Square Drive
Suite 101
Ventura, CA 93003

Hon. Carl Morehouse



This Page Intentionally Left Blank

**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**



This Page Intentionally Left Blank

AUDIT COMMITTEE AGENDA NOVEMBER 29, 2016

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 August 16, 2016 Meeting</u> | Attachment | | 1 |
| 2. <u>2017 Proposed Meeting Schedule</u> | Attachment | | 5 |

INFORMATION ITEMS

- | | | | |
|---|------------|--------|----|
| 3. <u>Fiscal Year 2016-17 Preliminary External Financial Audit</u>
<i>(Basil Panas, CFO)</i> | Attachment | 45 min | 7 |
| 4. <u>Regional Council (RC) – Travel Expenses and Stipends</u>
<i>(Richard Howard, Internal Auditor)</i> | Attachment | 20 min | 59 |
| 5. <u>SCAG Information Security Status</u>
<i>(Catherine Kirschbaum, CIO)</i> | Attachment | 10 min | 73 |
| 6. <u>Ethics Hotline and Case Management Services</u>
<i>(Richard Howard, Internal Auditor)</i> | Attachment | 10 min | 75 |
| 7. <u>Internal Audit Status Report</u>
<i>(Richard Howard, Internal Auditor)</i> | Attachment | 5 min | 77 |



**AUDIT COMMITTEE
AGENDA
NOVEMBER 29, 2016**

TIME PG#

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 will be determined at a later date.

Audit Committee
of the
Southern California Association of Governments

August 16, 2016

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

SANBAG, 2nd Vice-President

Hon. Michele Martinez, Santa Ana

District 16, SCAG President
(Via Teleconference)

Hon. Margaret Finlay, Duarte

District 35, SCAG 1st Vice-President
(Via Teleconference)

Hon. Cheryl Viegas-Walker, El Centro

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

Hon. Carl Morehouse, San Buenaventura

District 47, SCAG
(Via Videoconference)

Hon. Glen Becerra, Simi Valley

District 46
(Via Teleconference)

Hon. Greg Pettis, Cathedral City

District 2
(Via Teleconference)

Members Not Present

Hon. Edward H. J. Wilson, Signal Hill

Gateway Cities COG

CALL TO ORDER

Hon. Alan Wapner, Chair, called the meeting to order at 1:35 p.m. and asked Hasan Ikhata, Executive Director to lead the Pledge of Allegiance.

ROLL CALL

A roll call was taken and it was determined that a quorum was not present.

PUBLIC COMMENT PERIOD

None.

Audit Committee
of the
Southern California Association of Governments

August 16, 2016

Minutes

REVIEW and PRIORITIZE AGENDA ITEMS

Due to the absence of a quorum at the start of the meeting, Action Items were deferred until a quorum could be present. As a result, the Information Items No. 4 and 5 (Risk Assessment Input Form Report and the Travel Expense Review Report) were heard before the Action Items. A quorum was established at 1:50 p.m., at which time the Audit Committee considered the remaining agenda items.

CONSENT CALENDAR

Approval Items

1. Minutes of the June 15, 2016 Meeting

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

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

ACTION ITEMS

2. Fiscal Year (FY) 2016-17 External Audit Work Plan

Richard Howard, Internal Auditor, provided a brief overview of the proposed Internal Audit Work Plan for FY 2016-17 and asked the Committee to approve.

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

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

3. Selection of External Auditor

Richard Howard, Internal Auditor, explained that due to the expiration of the contract with Vasquez & Company LLC, SCAG's external auditors, a Request for Proposal (RFP) needs to be issued to secure audit services for FY 2016-17. Mr. Howard asked the Committee to select at least one of its members to serve on the Proposal Review Committee (PRC) for the selection of an external auditor for FY 2016-17.

Hon. Cheryl Viegas-Walker volunteered to serve on the PRC.

A MOTION was made (Wapner) and SECONDED (Finlay) to appoint Hon. Cheryl Viegas-Walker to serve on the PRC for the selection of an external auditor for FY 2016-17. The motion was passed by the following vote:

Audit Committee
of the
Southern California Association of Governments

August 16, 2016

Minutes

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

INFORMATION ITEMS

4. Risk Assessment Input Form Report

Richard Howard, Internal Auditor, Joshua Margraf, Assistant Internal Auditor, and Basil Panas, CFO, provided an overview of the Risk Assessment results of the key risk areas affecting the organization. Mr. Howard noted that input was provided by several members of the Audit Committee, and by SCAG Directors and Managers.

Joshua Margraf, Assistant Internal Auditor, described the scores for how each degree of risk ranked. He commented that the Information Services/ Technology (IT) and Project Management received the highest scores. He noted that Internal Audit is currently working with Basil Panas, CFO, and Catherine Kirschbaum, Chief Information Officer, and IT staff to help address some of the areas identified as having a high degree of risk.

Basil Panas, CFO, commented that a new Project Management training video is currently available as an additional development tool and resource to aid SCAG Managers and staff in proper project management policies and procedures.

Hon. Cheryl Viegas-Walker asked about additional information to substantiate the low level of risk assigned to the Human Resources department (HR). Specifically, Hon. Viegas-Walker inquired about data on EEOC filings, employee turnover, employee relations and grievances, and on Workers Compensation claims.

Carmen Flores, HR Manager explained the overall effectiveness of the HR policies and why the HR risk factor is low. She reported that there is a low number of EEOC filings, and employee grievances due to the immediate action HR provides to mitigate concerns or issues. In addition, HR has taken steps to work with JPIA and their recommendations to reduce workplace complaints. She also noted that due to SCAG being a specialized industry, turnover trends are not alarming. As the economy becomes stronger and more competitive, HR must review the benefits and compensation package regularly to maintain its dedicated and loyal employees.

The Audit Committee was satisfied with staff's responses.

5. Travel Expense Review Report

Richard Howard, Internal Auditor, provided a brief overview and background information on the review that Internal Audit's office conducted on employee travel expenses for FY 2016. He reported that overall compliance was good, with the main area of non-compliance being the hotel lodging costs that exceed the per diem rates in SCAG's Travel Policy, which requires a "Permission to Exceed Lodging Rate (form)" to be approved prior to the cost being incurred.

Audit Committee
of the
Southern California Association of Governments

August 16, 2016

Minutes

Discussion ensued. Staff responded to questions and comments provided by the Committee, including questions on the following: the FY 2016 travel expense budget; lodging rates; the internal travel reservations process; the overall total number of forms not being completed; the overall number of staff resources required to ensure proper travel efficiencies, and compliance of the Travel Policy for both SCAG elected officials and employees, as it pertains to completing proper forms.

In conclusion, going forward, Internal Audit will express an opinion on the Travel Expense internal audit by reviewing the overall process and guidelines. Mr. Howard noted that the travel policy and proper procedures, as recommended with this audit, would be disseminated to all employees.

6. Internal Audit Status Report

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

There were no additional discussions or comments made on this item.

FUTURE AGENDA ITEMS

There were no Future Agenda Items Requested.

ANNOUNCEMENTS

Hasan Ikhrata, Executive Director announced that Caltrans will resume its audit on August 29, 2016. The final report will be shared with the Audit Committee.

Richard Howard, Internal Auditor, announced that a Request for Proposal (RFP) will be issued on September 1, 2016 for an Ethics Hotline and Case Management consultant.

ADJOURNMENT

Hon. Alan Wapner, Chair, adjourned the meeting at 2:16 p.m. The next meeting of the Audit Committee will be held on Tuesday, November 29, 2016 at 2:30 p.m.

Minutes Approved by:

Richard Howard, Internal Auditor
Staff to the Audit Committee

REPORT

DATE: November 29, 2016
TO: Audit Committee
FROM: Richard Howard, Internal Auditor, (213) 236-1905, howard@scag.ca.gov
SUBJECT: Audit Committee Meeting Schedule - 2017

RECOMMENDED ACTION:

Approve the Proposed 2017 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:

The tentative schedule for the Audit Committee meetings in 2017 is as follows:

- **Tuesday, March 14, 2017**
- **Tuesday, May 9, 2017**
- **Tuesday August 8, 2017**
- **Tuesday, November 14, 2017**

FISCAL IMPACT:

None

ATTACHMENT:

None

This Page Intentionally Left Blank



Members AICPA Division of Firms ♦ Center for Public Company Audit Firms ♦ Registered with Public Company Accounting Oversight Board
801 S. Grand Avenue, Suite 400, Los Angeles, CA 90017-4646 ♦ Member of the Government Finance Officers Association
Tel No. (213) 873-1700 ♦ Fax (213) 996-4242 ♦ www.vasquezcpa.com
Contact: Peggy McBride, CPA ♦ Dated: November 29, 2016

Introduction

Audit Committee

We are pleased to present this report related to our audit of the financial statements of Southern California Association of Governments (SCAG) as of and for the year ended June 30, 2016. This report summarizes certain matters required by professional standards to be communicated to you in your oversight responsibility for SCAG's financial reporting process, as well as other matters that we believe may be of interest to you. Our audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

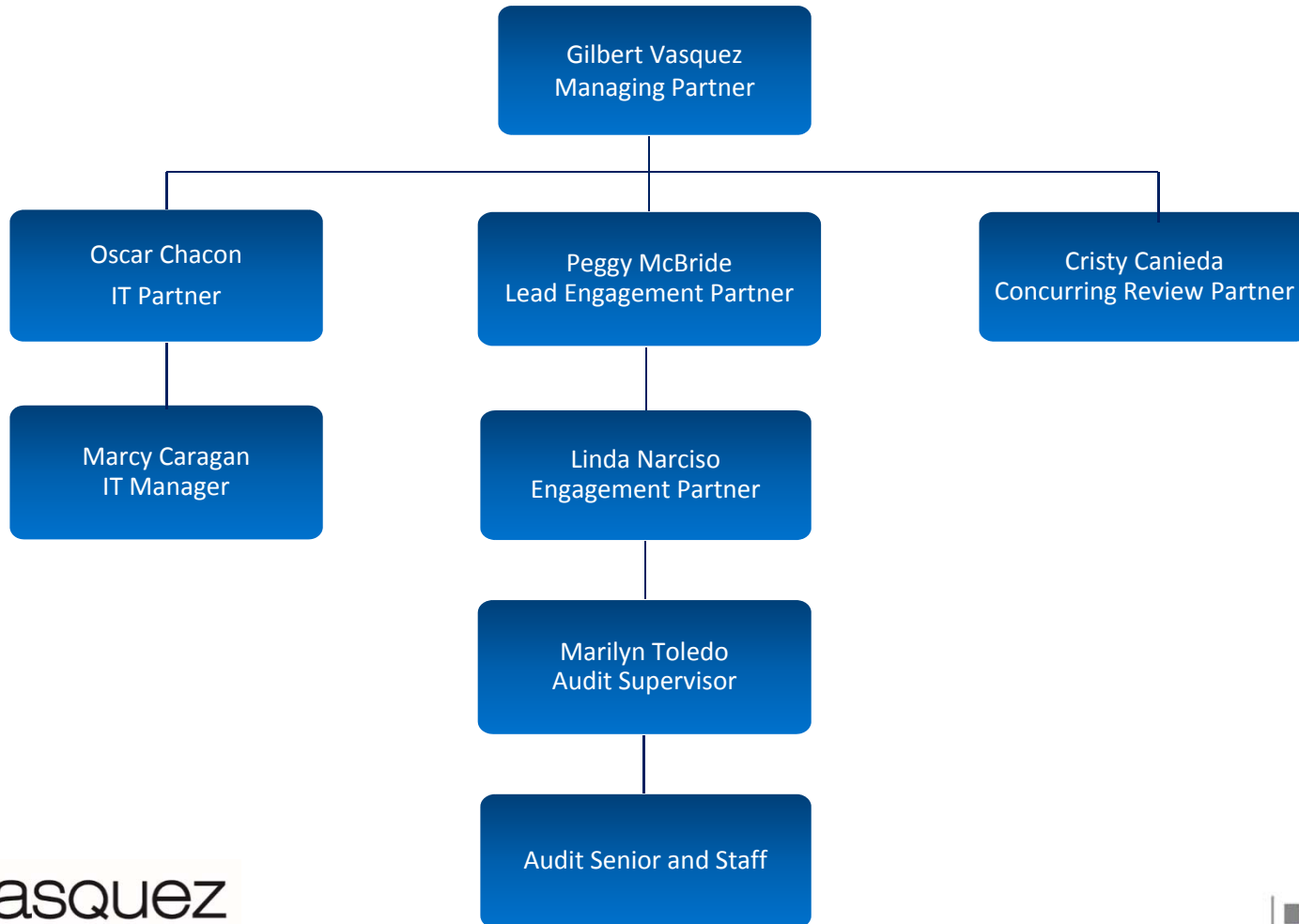
This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be, and should not be, used by anyone other than these specified parties. It will be our pleasure to respond to any questions you have regarding this report. We appreciate the opportunity to continue to be of service to SCAG.

Contents

- Engagement Team
- Key SCAG Personnel - Acknowledgments
- Independence
- Scope of Engagement
- Audit Methodology
- Summary of Audit Results
- Status of Prior Year Audit Finding
- Financial Statements
- New Accounting/Auditing Pronouncements
- AU 380 Auditors' Required Communication to those Charged with Governance
- Questions

ENGAGEMENT TEAM

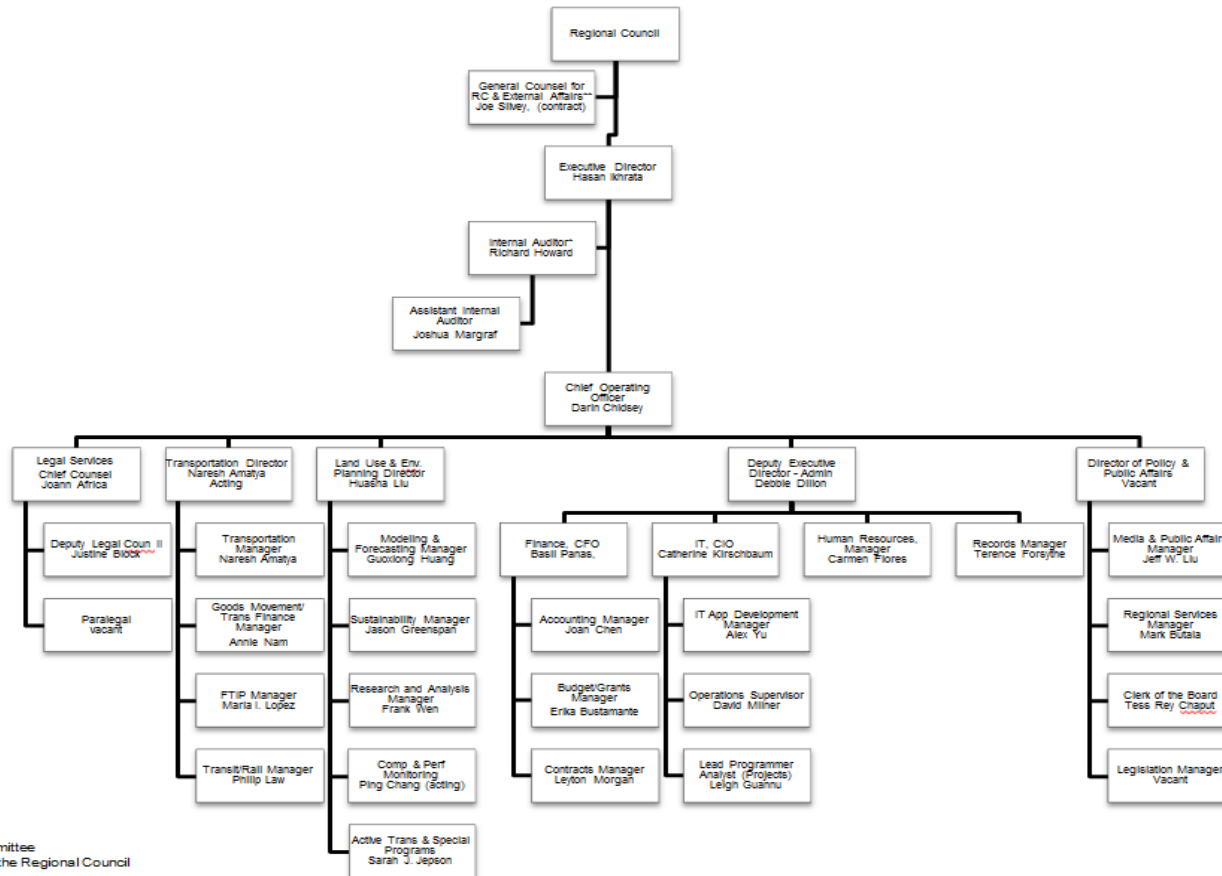
Engagement Team



KEY SCAG PERSONNEL - ACKNOWLEDGMENTS

Key SCAG Personnel – Acknowledgments

SCAG Organization Chart – November 2016



INDEPENDENCE

Independence

There are no relationships between any of our representatives and Southern California Association of Governments (SCAG) that in our professional judgment may reasonably be thought to bear on independence.

Vasquez & Company LLP meets the independence requirements of the *Government Auditing Standards* as it relates to SCAG.

SCOPE OF ENGAGEMENT

Scope of Engagement

- Financial Statement Audit in accordance with generally accepted governmental auditing standards
- Single Audit in accordance with the Uniform Guidance

AUDIT METHODOLOGY

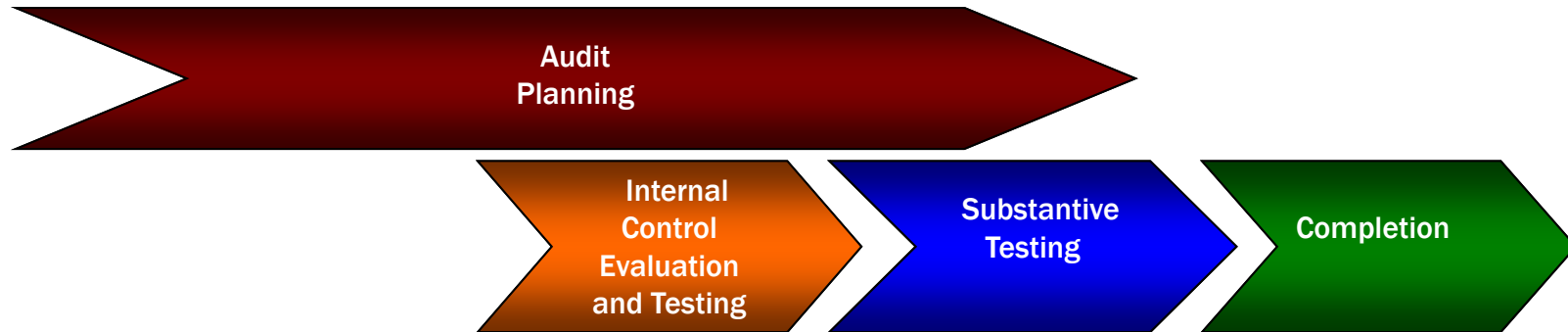
Audit Methodology

Phase I

Phase II

Phase III

Phase IV



- Familiarize ourselves with the operating environment
- Perform risk assessment procedures
- Perform preliminary analytical review
- Develop audit plan
- Communicate with Audit Committee via SAS 114
- Identify major program(s) for Single Audit testing.
- Discuss and agree on financial statement format
- Evaluate the progress of the audit and make any changes to audit approach and procedures (if necessary)

- Assess internal control environment
- Perform SAS 99 (fraud evaluation procedures)
- Identify internal control strengths and weaknesses
- Evaluate design and implementation of selected controls
- Test controls over financial reporting and administration of federal funds
- Understand accounting and reporting activities
- Draft internal control management letter comments

- Plan and perform substantive audit procedures (i.e., vouching, reconciliations, recalculations, analytical procedures, confirmation of balances)
- Conduct final analytical review
- Consider audit evidence sufficiency
- Conclude on critical accounting matters
- Discuss issues with management as they arise.

- Perform completion procedures
- Assist in drafting the CAFR. Evaluate the financial statements and disclosures
- Review financial statements in accordance with GFOA Award criteria
- Draft management letter
- Conduct exit conference, including discussion of proposed audit adjustments, internal control and compliance findings and management letter
- Communicate with Audit Committee via SAS 114
- Issue auditors' reports and management letter.

SUMMARY OF AUDIT RESULTS

Report of Independent Auditors

□ **Unmodified Opinion**

- Audit performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*
- The financial statements fairly present, in all material respects, SCAG's:
 - Financial position
 - Changes in net position
- The supplemental combining financial statements and supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Audit Areas of Emphasis

Audit Focus Area	Findings or Adjustments
Cash and cash equivalents	None noted.
Revenue, accounts receivable and unearned revenue	None noted.
Expenditures other than payroll and accounts payable	None noted.
Payroll and employee benefits	None noted.
Capital assets	None noted.
Cost allocation	None noted.
Compliance with program requirements	None noted.

Audit Areas of Emphasis (Continued)

Area	Procedures Performed	Findings
Billings and cash receipts	<p>We selected 2 CPG* and 11 Non-CPG monthly Request for Reimbursements forms (invoices) initiated by SCAG for FY15-16 and performed the following:</p> <ol style="list-style-type: none"> 1. Reviewed invoices and agreed amount billed to supporting detail summary report. 2. Determined that the invoices were properly approved. 3. Traced amount billed to the general ledger to determine whether the revenues were accurately recorded to the project code/account, amount and period. <p><i>*Consolidated Planning Grant</i></p>	

Audit Areas of Emphasis (Continued)

Area	Procedures Performed	Findings
Billings and cash receipts (continued)	<ol style="list-style-type: none"> 4. Determined cash collections were properly recorded in the check deposit log and copies of the check and remittance data were made, stamped and retained as documentation of cash received. 5. Agreed amount received to the bank deposit slip or bank statement and verified that the cash receipts were deposited promptly and intact. 6. Traced the cash receipts to the general ledger to determine that the cash receipts were accurately recorded. 7. Verified that the accounts receivable ledger reconciled to the general ledger. 	No exceptions noted.

Audit Areas of Emphasis (Continued)

Area	Procedures Performed	Findings
Procurement	<p>We selected 7 out of the 49 contracts entered during the year and performed the following:</p> <ol style="list-style-type: none"> 1. Ensured that the RFP/RFQ was prepared and properly authorized. 2. Ensured that the entire Proposal Review Committee signed the non-disclosure/conflict of interest form. 3. Reviewed the Proposal Evaluation Form and Consultant Selection Form/Memo to ensure that the selection process was properly documented. 4. Reviewed the executed contract to ensure that it was signed by the authorized representative of SCAG. 	

Audit Areas of Emphasis (Continued)

Area	Procedures Performed	Findings
Procurement (continued)	<ol style="list-style-type: none"> 5. For contracts \$201k and above, we reviewed the minutes of the Regional Council (RC) to ensure that contracts were approved by the RC. For contracts below \$200k, we ensured that a Regional Council report/memo was prepared and submitted to the RC. 6. Ensured that the contractor provided proof of insurance and Debarment and Suspension Certification. We independently verified that the vendors were not suspended or debarred parties. 7. Determined whether a Purchase Order or Notice to Proceed was issued. 	

Audit Areas of Emphasis (Continued)

Area	Procedures Performed	Findings
Procurement (continued)	<p>In addition to the above, we performed the following additional procedures for the 2 contracts tested under Single Audit.</p> <ol style="list-style-type: none"> 8. For contracts \$250K and above, determined if SCAG's internal auditor performs a pre-award audit. 9. Verified if competitive bidding took place before the contract was awarded. 10. Verified if the vendor submitted the required Debarment and Suspension Certification. 11. Independently verified if the vendor is not suspended or debarred party via the EPLS website. 12. Reviewed the executed contracts and determined if the required provisions per Master Fund Agreement were included or incorporated in the contracts. 	No exceptions noted.

Audit Areas of Emphasis (Continued)

Area	Procedures Performed	Findings
Cash disbursements	<p>We selected 11 expenditures incurred by SCAG for FY15-16 and performed the following:</p> <ol style="list-style-type: none"> 1. Verified that the supporting documentations were reviewed and properly approved. 2. Traced the disbursements to the general ledger to determine whether the expenditures were accurately recorded to the project code/account, amount and period. 3. Reviewed the check signatories for compliance with SCAG's policy. 4. Ascertained that the amounts paid were net of applicable credits, discounts, or refunds. 	No exceptions noted.

Audit Areas of Emphasis (Continued)

Area	Procedures Performed	Findings
Payroll and employee benefits	<p>We selected 11 employees and various pay periods during the year and performed the following:</p> <ol style="list-style-type: none"> 1. Verified that the payroll transactions were properly supported by time records reviewed and approved by their supervisors. 2. Traced the hourly rates to the approved Personnel Action Form. 3. Obtained and reviewed the reconciliation of payroll earnings reports against the general ledger. 4. Obtained and reviewed the actual vs. budget report and checked whether labor costs exceeded the budget. 5. Traced the payroll to the general ledger and verified that the payroll was properly distributed, recorded and charged to the correct project/fund code. 	No exceptions noted.

Audit Areas of Emphasis (Continued)

Area	Procedures Performed	Findings
Payroll and employee benefits (continued)	<ol style="list-style-type: none"> 1. We reviewed the GASB 68 journal entries and agreed balances to the actuarial reports. 2. We selected 1 new active member from the CalPERS census data report used in 06/30/14 actuarial valuation report and verified that the member was eligible to participate in the Plan and that the census data was accurate. 3. Tested the completeness of the CalPERS census data by selecting 2 employees from the payroll system in FY14 and verified that the 2 employees were properly included or excluded from the Plan. 	No exceptions noted.

Audit Areas of Emphasis (Continued)

Area	Procedures Performed	Findings
Treasury	<ol style="list-style-type: none"> 1. We selected three monthly bank reconciliations during FY15-16 and performed the following: <ul style="list-style-type: none"> • Evaluated the independence of the person reconciling the bank account from the functions of check access, preparation and approval. • Checked whether the bank reconciliations were prepared within 30 days per SCAG policy. • Determined that the bank reconciliations were properly approved. 2. We reviewed the SCAG Statement of Investment Policy and checked if properly approved by the Regional Council. We selected two monthly investment reports and reviewed them for compliance on SCAG's Investment Policy. 	No exceptions noted.

Audit Areas of Emphasis (Continued)

Area	Procedures Performed	Findings
Fraud Considerations	<p>1. We inquired with selected members of the Audit Committee, management, and staff regarding the following:</p> <ul style="list-style-type: none"> • Their knowledge of any actual fraud or suspicions of fraud. • Their awareness of any allegations of fraud or suspected fraud. • How and to what extent they assess the risk that the financial statements might be materially misstated due to fraud and the controls in place to prevent and detect it. • How management communicates to employees the importance of ethical behavior and appropriate business practices. 	

Audit Areas of Emphasis (Continued)

Area	Procedures Performed	Findings
<p>Fraud Considerations (continued)</p>	<ul style="list-style-type: none"> • The processes (programs and controls) for identifying, responding to, and monitoring fraud risks, including any: <ol style="list-style-type: none"> a. Specific fraud risks they have identified or that have been brought to their attention. b. Classes of transactions, account balances, or disclosures for which a fraud risk is likely to exist. 	<p>Overall, there is a perception from those interviewed that SCAG has a strong control environment and has policies and procedures in place that would deter, prevent, and detect fraud.</p> <p>To strengthen the internal controls we recommend that SCAG develop a formal Code of Conduct and provide training to supervisors on how to respond to reported fraud.</p>

Audit Areas of Emphasis (Continued)

Area	Procedures Performed	Findings
<p>Fraud Considerations (continued)</p>	<p>2. Reviewed the Form 700 (Statements of Economic Interests) of 4 Policy Committee members, 9 Regional Council members and 4 designated employees. Ensured that the forms were filed on time and checked existence of economic interest with SCAG contractors.</p> <p>3. Requested and obtained written confirmation from selected management (Executive Director, CFO and Contracts Manager) that they had no related party transactions.</p>	<p>We noted 1 Committee member who filed the Form 700 on May 25, 2016, which is 54 days past the due date.</p> <p>No related party transactions were identified.</p>

Audit Areas of Emphasis (Continued)

Area	Procedures Performed	Findings
IT General Controls	<ol style="list-style-type: none"> 1. Obtained an understanding on SCAG's Information Technology System through inquiry with the Chief Information Officer. 2. We noted that there is a planned upgrade of the accounting system (Microsoft Dynamics GP) for fiscal year 2017. SCAG's IT personnel will be performing IT tests of the upgraded system next year. Users will be trained prior to the rollout. 	No exceptions noted.

Audit Areas of Emphasis (Continued)

Area	Procedures Performed	Findings
GL Maintenance/ Closing Process	<ol style="list-style-type: none"> 1. Obtained an understanding on SCAG's controls over journal entries and other adjustments through inquiry with those involved in the financial reporting process. 2. Reviewed the completeness of journal entries during FY15-16. 3. Performed data analytics to test general ledger transactions for unusual events, such as: <ol style="list-style-type: none"> a. Transactions posting during weekends b. Transactions with even dollar amounts c. Transactions with unusually large dollar payment 	

Audit Areas of Emphasis (Continued)

Area	Procedures Performed	Findings
GL Maintenance/ Closing Process (continued)	4. Selected three journal entries and examined the following: <ul style="list-style-type: none"> a. Underlying evidence supports the recorded amount and description of the transaction. b. Transaction was recorded in the proper period. c. Journal entry was properly approved. 	No exceptions noted.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

- ❑ Unmodified Opinion - “Clean” Opinion
 - Audit performed in accordance with Generally Accepted Government Auditing Standards
 - Material weakness and significant deficiencies – none noted
 - Noncompliance material to the financial statements – none noted

Single Audit

MAJOR PROGRAMS:

CFDA No. 20.205 Federal Highway Administration (Federal Expenditures \$20.3 million)

- Highway Planning and Construction
- Partnership Planning
- Surface Transportation Program

CFDA No. 20.200 Federal Highway Administration (Federal Expenditures \$.96 million)

- FHWA Value Pricing
- FHWA Value Pricing, Phase III

Tested 63% of total Federal expenditures (\$33.9 million)

Single Audit (Continued)

Report of Internal Control Over SCAG's Major Programs

- Material weakness and significant deficiencies – none noted
- Audit findings identified that are required to be reported in accordance with the Uniform Guidance – none noted

Type of Auditors' Report Issued on Compliance for SCAG's major programs - unmodified

STATUS OF PRIOR YEAR AUDIT FINDING

Status of Prior Year Audit Finding

Finding Number	Description	Status
2015-001	<p>Subrecipient Monitoring</p> <p>We selected 3 subrecipients (2 subrecipients for CFDA 20.505 and 1 subrecipient for CFDA 20.526) to which the SCAG provided funding during FY14-15 and noted that the Memorandum of Understanding (MOU) between the SCAG and the 3 subrecipients tested did not clearly identify the CFDA title and number.</p>	<p>The previous Grants Administrator, Alfonso Hernandez, revised the MOU templates for FY16 to include the required information required by the Supercircular; which includes the CFDA Numbers and Program Titles.</p> <p>Furthermore, SCAG issued a letter to its subrecipients informing them of the grant CFDA number and Program Title.</p> <p>We examined a sample of letters issued to its subrecipients and a sample MOUs for FY16 and noted the CFDA number and program title. SCAG is compliant.</p>

FINANCIAL STATEMENTS

GOVERNMENT-WIDE

Statements of Net Position

	June 30		Variance	
	2016	2015	Amount	Percent
ASSETS				
Cash and cash equivalents	\$ 10,732,118	\$ 13,400,404	\$ (2,668,286)	-20%
Receivables:				
Federal grants	6,743,523	8,521,277	(1,777,754)	-21%
State grants and contracts	747,639	354,713	392,926	111%
Local grants and contracts	315,565	342,085	(26,520)	-8%
Other	131,605	239,732	(108,127)	-45%
Prepaid assets	750,009	566,517	183,492	32%
Other assets	13,646	13,646	-	0%
Indirect cost recovery	119,449	-	119,449	100%
Capital assets, net	1,626,539	2,251,523	(624,984)	-28%
Total assets	21,180,093	25,689,897	(4,509,804)	-18%
DEFERRED OUTFLOWS OF RESOURCES				
Dfeferred outflows of resources related to pensions	3,659,091	2,299,344	1,359,747	59%
LIABILITIES				
Accounts and contracts payable	3,459,413	6,018,222	(2,558,809)	-43%
Accrued liabilities	290,393	677,877	(387,484)	-57%
Indirect cost recovery	-	971,118	(971,118)	-100%
Advances from grantos	161,997	189,134	(27,137)	-14%
Unearned revenues	394,642	293,984	100,658	34%
Noncurrent liabilities:				
Due within one year	801,854	771,110	30,744	4%
Due in more than one year	28,951,983	24,259,201	4,692,782	19%
Total liabilities	34,060,282	33,180,646	879,636	3%
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows of resources related to pensions	1,754,278	5,471,889	(3,717,611)	-68%
NET POSITION				
Net investment in capital assets	1,626,539	2,251,523	(624,984)	-28%
Restricted	8,834,336	9,857,806	(1,023,470)	-10%
Unrestricted	(21,436,251)	(22,772,623)	1,336,372	-6%
Total net position	\$ (10,975,376)	\$ (10,663,294)	\$ (312,082)	3%

GOVERNMENT-WIDE

Statements of Activities

	Years ended June 30		Variance	
	2016	2015	Amount	Percent
REVENUES:				
Charges for services - member dues	\$ 1,900,950	\$ 1,871,720	\$ 29,230	2%
Operating grants and contributions	40,616,883	42,318,755	(1,701,872)	-4%
Interest income	92,093	75,652	16,441	22%
Other income	885,336	407,156	478,180	117%
Total revenues	43,495,262	44,673,283	(1,178,021)	-3%
EXPENSES:				
Transportation	30,851,350	31,710,847	(859,497)	-3%
Aviation	575,716	585,322	(9,606)	-2%
Environmental	1,459,853	1,450,795	9,058	1%
High speed rail	290,497	281,500	8,997	3%
Housing	981,416	1,128,200	(146,784)	-13%
Sustainability initiatives	7,506,301	5,463,860	2,042,441	37%
Administration	2,142,211	1,864,232	277,979	15%
Total expenses	43,807,344	42,484,756	1,322,588	3%
Changes in net assets	(312,082)	2,188,527	(2,500,609)	-114%
NET POSITION AT BEGINNING OF YEAR	(10,663,294)	(12,851,821)	2,188,527	-17%
NET POSITION AT END OF YEAR	\$ (10,975,376)	\$ (10,663,294)	\$ (312,082)	3%

GOVERNMENTAL FUNDS – GENERAL FUND

Balance Sheets

	<u>June 30</u>		<u>Variance</u>	
	<u>2016</u>	<u>2015</u>	<u>Amount</u>	<u>Percent</u>
ASSETS				
Cash and cash equivalents	\$ 10,732,118	\$ 13,400,404	\$ (2,668,286)	-20%
Other receivables	131,605	239,732	(108,127)	-45%
Prepaid assets	750,009	566,517	183,492	32%
Other assets	13,646	13,646	-	0%
Indirect cost recovery	119,449	-	119,449	100%
Total assets	<u>\$ 11,746,827</u>	<u>\$ 14,220,299</u>	<u>\$ (2,473,472)</u>	<u>-17%</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities				
Accounts and contracts payable	\$ 381,159	\$ 1,170,466	\$ (789,307)	-67%
Accrued liabilities	290,393	677,876	(387,483)	-57%
Indirect cost recovery	-	971,119	(971,119)	-100%
Due to other funds	4,267,861	5,676,621	(1,408,760)	-25%
Unearned revenues	394,642	293,984	100,658	34%
Total liabilities	<u>5,334,055</u>	<u>8,790,066</u>	<u>(3,456,011)</u>	<u>-39%</u>
Deferred inflows of resources				
Unavailable revenue	-	133,511	(133,511)	-100%
Total deferred inflows of resources	<u>-</u>	<u>133,511</u>	<u>(133,511)</u>	<u>-100%</u>
Fund balances				
Nonspendable for:				
Prepaid assets and other assets	763,655	566,517	197,138	35%
Unassigned	5,649,117	4,730,205	918,912	19%
Total fund balances	<u>6,412,772</u>	<u>5,296,722</u>	<u>1,116,050</u>	<u>21%</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 11,746,827</u>	<u>\$ 14,220,299</u>	<u>\$ (2,473,472)</u>	<u>-17%</u>

GOVERNMENTAL FUNDS – GENERAL FUND

Statements of Revenues, Expenditures, and Changes in Fund Balances

	Years ended June 30		Variance	
	2016	2015*	Amount	Percent
REVENUES:				
Membership assessments				
Cities	\$ 1,511,946	\$ 1,484,363	\$ 27,583	2%
Counties	294,004	292,357	1,647	1%
Commission	95,000	95,000	-	0%
General assembly	351,165	345,195	5,970	2%
Interest and other	626,264	137,613	488,651	355%
Total revenues	<u>2,878,379</u>	<u>2,354,528</u>	<u>523,851</u>	<u>22%</u>
EXPENDITURES:				
Transportation	199,508	12,514	186,994	1494%
Housing	19,558	110,836	(91,278)	-82%
Administration	1,543,263	1,511,687	31,576	2%
Capital outlay	-	195,101	(195,101)	-100%
Indirect costs	11,606,931	10,858,012	748,919	7%
Indirect costs recovery	(10,516,364)	(10,183,079)	(333,285)	3%
Under-recovery of indirect costs	(1,090,567)	(674,933)	(415,634)	62%
Total expenditures	<u>1,762,329</u>	<u>1,830,138</u>	<u>347,825</u>	<u>19%</u>
Deficiency of revenue over expenditures	1,116,050	524,390	591,660	113%
OTHER FINANCING SOURCES (USES):				
Transfers out	-	(7,027)	7,027	-100%
Net change in fund balance	<u>1,116,050</u>	<u>517,363</u>	<u>598,687</u>	<u>116%</u>
FUND BALANCE AT BEGINNING OF YEAR	<u>5,296,722</u>	<u>4,779,359</u>	<u>517,363</u>	<u>11%</u>
FUND BALANCE AT END OF YEAR	<u>\$ 6,412,772</u>	<u>\$ 5,296,722</u>	<u>\$ 1,116,050</u>	<u>21%</u>

* Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation

NEW ACCOUNTING PRONOUNCEMENTS

New Accounting Pronouncements – Effective This Year

The Governmental Accounting Standards Board (GASB) has issued the following pronouncements prior to June 30, 2016, that were to be implemented in fiscal year 2016 financial statements. Implementation of the following standards did not have a significant impact on the financial statements of SCAG.

GASB 72 – Fair Value Measurement and Application. This statement provides guidance for determining a fair value measurement for financial reporting purposes, and for applying fair value to certain investments and disclosures related to all fair value measurements. Effective for periods beginning after June 15, 2015.

GASB 73 – Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to certain provisions of GASB Statements 67 and 68. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as for the assets accumulated for purposes of providing those pensions. Effective for periods beginning after June 15, 2016.

New Accounting Pronouncements – Effective This Year (Continued)

GASB 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. This statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. Effective for periods beginning after June 15, 2015.

GASB 79 – Certain External Investment Pools and Pool Participants. This statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Effective for periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23–26, and 40, which are effective for reporting periods beginning after December 15, 2015.

New Accounting Pronouncements – Effective in Future Years

The Governmental Accounting Standards Board (GASB) has issued pronouncements prior to June 30, 2016, that have effective dates that impact future financial presentations. Management has not yet determined any impact the implementation of the following statements may have on the financial statements of SCAG.

GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Effective for periods beginning after June 15, 2017.

GASB 82 – Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73. Effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7.

AU 380 – AUDITORS' REQUIRED COMMUNICATION TO THOSE CHARGED WITH GOVERNANCE

Required Communications

- Management has primary responsibility for the accounting principles used, including their consistency, application, clarity and completeness. During the year, SCAG adopted GASB Statement No. 72.
- We are not aware of any consultations by management with other accountants about accounting or auditing matters.
- We did not encounter any difficulties with management while performing our audit procedures that require the attention of the Audit Committee and the Regional Council.
- We encountered no disagreements with management on financial accounting and reporting matters as they relates to the current year financial statements.
- SCAG's significant accounting policies are appropriate, and management has applied its policies consistently with prior periods in all material respects.

Required Communications

- No significant or unusual transactions or accounting policies in controversial or emerging areas for which there is lack of authoritative guidance or consensus were identified.
- There were no material audit adjustments required in order for the financial statements to be in conformity with GAAP.
- No significant issues were discussed, or subject to correspondence, with management prior to retention.
- No significant deficiencies or material weaknesses were identified.
- No irregularities, fraud or illegal acts or that would cause a material misstatement of the financial statements, came to our attention as a result of our audit procedures.
- SCAG will provide us with a signed copy of the management representation letter prior to issuance of our auditors' opinions.


QUESTIONS

THANK YOU FOR
YOUR TIME AND
ATTENTION

Contact Information


Peggy McBride, CPA

 email address: pmcbride@vasquezcpa.com

 telephone no.: (213) 873-1706

Linda Narciso, CPA

 email address: lnarciso@vasquezcpa.com

 telephone no.: (213) 873-1700 ext. 243

This Page Intentionally Left Blank

REPORT

DATE: November 29, 2016

TO: Audit Committee

FROM: Richard Howard, Internal Auditor, 213-236-1905, howard@scag.ca.gov

SUBJECT: Regional Council (RC) – Travel Expenses and Stipends

RECOMMENDED ACTION:

For Information Only – No Action Required.

EXECUTIVE SUMMARY:

SCAG has been using two travel policies—one for RC members and one for employees—with regard to the intake and processing of RC travel expense reimbursements. This has resulted in lack of clarity about which policy to follow as well as current practices not necessarily aligning with RC travel policy.

STRATEGIC PLAN:

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

INTRODUCTION:

During the August 16 Audit Committee meeting, Internal Audit presented a review of employee travel expenses. This led to questions about the procedures used to authorize and record travel expenses for RC members. Given the lack of clarity as to which SCAG travel policies and procedures apply to RC members, Audit Committee members suggested that Internal Audit perform a review of SCAG’s travel policies. As part of examining SCAG travel policies and procedures, we reviewed those related specifically to RC members to include travel expense reimbursements and stipends.

SCOPE AND METHODOLOGY:

We focused on the policies and procedures used for RC member travel expense reimbursements and stipends. Our objectives were to (1) determine what, if any, differences exist between RC travel policy and SCAG’s overall travel policy; and (2) determine whether any opportunities exist to better align the policies and/or procedures related to RC member reimbursements. We reviewed SCAG’s *Regional Council Member Travel Policy*, which is part of the *Regional Council Policy Manual*,¹ and compared it to SCAG’s *Travel Policy and Guidelines*.² We also reviewed Article VI, Section 1 of the *Regional Council Policy Manual*, which discusses stipends, expense reimbursements, and other general fund expenditures.³ In addition, we met with SCAG staff who process reimbursement and stipend requests to discuss the policies and procedures they use.

¹The *Regional Council Travel Policy* is also maintained as a separate document. SCAG last amended the policy on April 7, 2005. The *Regional Council Policy Manual* consists of different articles and sections, each amended at various times; SCAG last updated the overall manual in September 2009. See http://info/legal/pdfs/RC_PolicyManualSep09.pdf.

²SCAG, *Travel Policy and Guidelines*, last amended March 16, 2016. See http://info/accounting/pdfs/AppendixC_TravelPolicyRev030116.pdf.

³SCAG last amended this policy on February 5, 2009. See *Regional Council Policy Manual*, Article VI: Stipends, Expense Reimbursements, and Other General Fund Expenditures, Section 1: Regional Council Stipend and Meeting Expense Policy.

We performed this review from September 2016 through November 2016 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. We did not conduct an audit of SCAG's overall travel policies and procedures at this time, the objectives of which would be to express an opinion of their effectiveness and efficiency. Rather, we focused on reviewing the policies and procedures related to RC member travel expense reimbursements and stipends. We plan to use this work to inform future reviews of the agency's travel policies and procedures. Accordingly, we do not express an opinion on SCAG's overall travel policy at this time.

BACKGROUND:

SCAG's official travel policy document for staff, titled *Travel Policy and Guidelines*, provides information for employees who perform official SCAG business travel.⁴ The travel policy discusses travel authorizations and expense reimbursements, including time frames for submission of reimbursement requests.

SCAG also maintains a distinct travel policy for RC members. This document, titled *Regional Council Travel Policy*, is integrated with the *Regional Council Policy Manual*. It is also a stand-alone document on SCAG's intranet.⁵ The RC travel policy discusses lodging rates, among other things. RC members also receive stipends for attendance and travel to SCAG sponsored meetings or other SCAG business. The RC travel policy requires advance authorization of RC member business travel. SCAG's Chief Operating Officer (COO) authorizes RC member travel. Stipend policy is detailed in a separate section of the *Regional Council Policy Manual*.⁶

ANALYSIS:

Requests for payment from RC members generally fall under two categories: (1) reimbursement for travel expenses or (2) stipends. RC members submit requests for reimbursements and stipends to SCAG's Office of Regional Council Support (ORCS), which reviews the submissions for completeness and accuracy. Accounting then processes reimbursement requests for payment.

Travel Expense Reimbursements

To receive reimbursement for travel expenses, including mileage, lodging, public transportation, and meals, RC members must submit an expense reimbursement form along with supporting documentation, including receipts, to ORCS staff, who review the reimbursement request for accuracy and completeness (e.g. correctly calculated mileage, RC member signature on the expense form, and purpose for incurring the costs, among other things).⁷ After reviewing the reimbursement request, ORCS forwards the request to the Chief Operating Officer for final approval of the expenses (if not available, another member of SCAG's executive team approves the expenses). Once final approval is received, Accounting staff processes the payment.

⁴As per SCAG's *Travel Policy and Guidelines*, SCAG aims to maintain an accountable travel policy that satisfies four key requirements: (1) travel is business related; (2) expenses are substantiated; (3) unspent advance amounts are returned; and (4) timeliness of expense submissions.

⁵See http://info/formbank/pdfs/RCtravelpolicy_May2005.pdf for the stand-alone copy of the policy.

⁶See *Regional Council Policy Manual*, Article VI, Section 1.

⁷See http://info/formbank/pdfs/RC_ExpenseForm_Jan2016.pdf for a current copy of the expense reimbursement form.

SCAG has been using both the *Regional Council Member Travel Policy* and SCAG's *Travel Policy and Guidelines*, which applies to staff, with regard to the intake and processing of RC travel expense reimbursements. In lieu of RC-specific guidelines related to the submission of reimbursement requests for travel expenses, staff have relied on SCAG's *Travel Policy and Guidelines*. According to SCAG's Chief Financial Officer (CFO), the *Travel Policy and Guidelines* document should also apply to RC members except for areas specifically discussed in the RC travel policy. Given that the RC travel policy was developed for SCAG's governing body, and because the RC travel policy has not been reviewed or updated as frequently as SCAG's *Travel Policy and Guidelines*, there are some inconsistencies between the two policies, particularly with regard to travel authorizations, excess lodging rates, and time frames. This has resulted in lack of clarity about which policy to follow as well as some potential excess work for SCAG staff. Also, current practices do not necessarily align with the RC travel policy.

Travel Authorizations

Accounting has indicated that travel authorization forms are required to process RC reimbursement requests for travel expenses, in particular for travel that includes an overnight stay because SCAG's *Travel Policy and Guidelines* requires staff to complete a travel authorization for travel outside the SCAG region or for travel within the region that includes an overnight stay. Therefore, ORCS staff have been completing travel authorizations for RC members after travel expenses have been incurred and submitting them to Accounting with the travel expense form in order to process payment. This has added to staff workload, and may not be necessary given that RC travel policy does not discuss the need for travel authorizations, but rather notes that the RC should authorize member business travel in advance for purposes of officially representing SCAG in connection with an approved SCAG program, policy, and/or plan.⁸ Currently, the COO authorizes such travel for RC members. However, prior approval is not required for travel to regular meetings of the RC. Indicating in the RC travel policy how RC travel is to be authorized, including how the authorization is to be documented, would provide clarity to RC members as well as staff responsible for intake and processing of reimbursement requests. Conversely, SCAG could state in the RC travel policy that anything not addressed in the policy is covered in the *Travel Policy and Guidelines* document.

With regard to international travel, SCAG's *Travel Policy and Guidelines* document notes that any such travel for employees must be pre-approved by the RC. The RC travel policy does not discuss international travel, but the current practice is that the RC must approve international travel for RC members prior to the trip. Specifically discussing international travel in the RC travel policy or directly referring to SCAG's *Travel Policy and Guidelines* will provide more clarity as well as greater consistency between RC and employee travel policies.

Exceed Lodging Rates

ORCS staff have started filling out the exceed lodging rate form for RC members and have submitted the form to the CFO for approval, sometimes after costs have been incurred. As per SCAG's *Travel Policy and Guidelines*, SCAG employees can exceed allowable lodging rates, but only with prior approval, which must be requested via the exceed lodging rate form.⁹ SCAG's CFO may authorize the amount of lodging that

⁸As per *The Regional Council Travel Policy* document, the RC "shall authorize in advance member business travel for purposes of officially representing SCAG in connection with an approved SCAG program, policy, plan, or as a legislative advocate on behalf of SCAG's approved legislative program."

⁹See http://info.scag.ca.gov/formbank/pdfs/Permission_ExceedLodgingRate.pdf for a copy of the exceed lodging rate form.

exceeds the allowable rate to be paid out of the General Fund.¹⁰ The RC Travel Policy does not make reference to the exceed lodging rate form. However, it does note that RC members required to travel 75 miles or more one way to attend a SCAG meeting at SCAG's main office, or who are on the Executive Committee can be reimbursed for lodging costs not to exceed \$150. The RC president is authorized to approve lodging rates exceeding \$150 if the government rate is not available and the RC member has made the reservation two weeks in advance. It seems that RC President approval is only necessary for excess lodging rates. If SCAG is to require RC members to submit exceed lodging rate forms, indicating such in the RC travel policy, including who should be responsible for signing the form, would provide greater clarity as to which processes should be followed for RC members. Conversely, SCAG could state in the RC travel policy that anything not addressed in the policy is covered in the *Travel Policy and Guidelines* document.

Reimbursement Submission Time Frames

The submission deadline to receive travel expense reimbursement differs between RC members and employees. SCAG's *Travel Policy and Guidelines* document states that employees must submit reimbursement requests for travel-related expenses within 60 days after the expenses are incurred. The RC Travel Policy notes that RC member claims for travel reimbursement must be received by July 31 of the fiscal year in which the authorized travel costs were incurred. Accounting staff indicated that this is to allow RC members the maximum amount of time to submit reimbursement requests (the end of the fiscal year is June 30). Some risk is associated with having a late deadline in that reimbursement requests may be delayed until the end of the fiscal year, thereby increasing the processing workload for staff. Also, allowing for later submission of reimbursement requests does not necessarily align with the timeliness aspect that SCAG aims for as part of its *Travel Policy and Guidelines*. However, ORCS staff indicated that RC members typically submit expense reimbursement forms in a timely fashion; occasionally some are submitted after the close of the fiscal year. To help ensure RC members submit expense reimbursement forms in a timely manner, ORCS staff suggested that SCAG send e-mail reminders about submission deadlines to RC members toward the end of the fiscal year. In addition, they noted that enhancing the expense reimbursement form to include submission time frames may also encourage timely submissions.

SCAG currently maintains two copies of the *Regional Council Travel Policy*, but these do not match. One copy is a stand-alone document, while the other copy is integrated with the *Regional Council Policy Manual*. The stand-alone version does not include the clause regarding submission deadlines. Further, this version is not dated—there is no indication of when the RC adopted the policy or amended it. For the purposes of this review, we used the copy that is integrated with the *Regional Council Policy Manual* as Article VI, Section 2 because it is more complete—it includes submission time frames and is dated.

Stipends

Stipends paid to RC members are contained in Article VI, Section 1 of the *Regional Council Policy Manual*. This section of the policy manual was last amended in February 2009. It states that RC members shall receive a minimum of \$120 stipend for attendance and travel to SCAG sponsored meetings or other SCAG

¹⁰The allowable rate varies depending on location. For instance, the actual state-wide rate is up to \$90 with limited exceptions, such as up to \$120 for Orange County and up to \$150 for San Francisco County. Out-of-state rates are based on federal per diem rates. The general fund provides working capital and pays for the support expenses of the RC, its subcommittees and task forces as well as for other costs not eligible for grant reimbursement.

business as authorized by the RC. As per the policy, RC members are automatically authorized up to six stipends per month, and the RC President may authorize up to two additional stipends per month. RC officers are eligible to receive up to eight stipends per month. If an RC member has over eight meetings per month, the RC as a whole must approve stipends for the ninth and subsequent meetings. Stipends are in addition to travel expenses and are submitted separately. Article VI, Section 1 of the *Regional Council Policy Manual* does not refer to the procedures used to carry out the policy. However, ORCS staff noted that SCAG provides new members information on stipends, including how they are submitted and paid.

RC members submit stipend requests through ORCS. To verify stipend eligibility, ORCS staff request and maintain copies of supporting documentation, such as sign-in sheets and voting records from regular RC meetings as well as e-mails from RC members indicating what meetings they have attended. Article VI, Section 1 of the *Regional Council Policy Manual* provides information on the acceptable documentation for a record of meeting attendance.¹¹ If supporting documentation is complete, Accounting is notified about the stipend request, and then processes the payment. Accounting relies on the Office of Regional Support to ensure that the stipend requests are supported with proper documentation. Article VI, Section 1 does not mention who ultimately signs-off on the stipends for payment if they are complete (i.e. include all the proper documentation).

ORCS staff have developed a key control to keep track of the number of stipends paid per RC member per month. They also maintain a record of RC members who choose not to request or accept stipends. ORCS staff said they regularly update the log—usually as soon as a stipend request is submitted. Since stipends are tied to a specific meeting during a month, if an RC member requests a stipend at a later date for a meeting that occurred during an earlier month, ORCS staff can check their records to determine the number of stipends paid during the earlier month to see if approval is required to process the stipend. For instance, if an RC member requests a stipend in June for a meeting that occurred in February, but that RC member already received eight stipends in February, the stipend request would require RC approval.

According to ORCS staff, stipend requests must be submitted by July 31 of the fiscal year in which the meeting occurred. The staff noted that for the most part stipend requests are made on a timely basis. Article VI, Section 1 of the *Regional Council Policy Manual* does not specify a time frame as to when stipend requests are to be submitted. Including time frames in Article VI, Section 1 may help remind RC members to submit requests in a timely fashion. Also, ORCS staff suggested that SCAG send e-mail reminders about submission deadlines to RC members toward the end of the fiscal year.

CONCLUSION:

SCAG has been applying the agency's travel policy and guidelines for its staff to RC member submissions for travel expense reimbursements and stipends. However, there are some areas of inconsistency between the RC travel policy and SCAG's *Travel Policy and Guidelines*, namely in the areas of travel authorizations, excess lodging rates, and submission time frames. This is partially due to RC members not being employees and that RC travel policy is not updated on a frequent basis—SCAG last amended the RC travel policy in 2005. Also, some SCAG staff are unfamiliar with the RC travel policy. Given the differences in the policies, the practices currently being used by SCAG to process travel expense reimbursements do not necessarily align with the overall policies and have caused some excess work for staff.

¹¹See *Regional Council Policy Manual*, Article VI, Section 1, specifically 1.9 to 1.11.

RECOMMENDATIONS:

Federal internal control standards state that periodic reviews of policies and procedures for continued relevance are an important part of internal control.¹² As such, we are recommending that SCAG:

- Review the RC travel policy (last amended on April 7, 2005), and SCAG's *Travel Policy and Guidelines* to (1) determine if they meet the needs of the agency or require updating, and (2) to clearly indicate in writing which policy (RC travel policy or staff travel policy) applies to certain areas, such as travel authorizations and excess lodging;
- Review how RC travel is authorized (e.g. who should authorize the travel) to determine if it meets the needs of the agency and clarify the approval in the RC travel policy;
- Review its current procedures for intake and processing of RC travel expense reimbursements to see they align with overall policies; and
- Review Article VI, Section 1 of the *Regional Council Policy Manual*, given that it was last amended on February 5, 2009, to determine if it still meets the needs of the agency or should be updated.

FISCAL IMPACT:

None

ATTACHMENT:

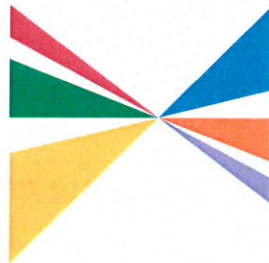
- RC Policy Manual – RC Travel Policy and Article VI: Section 1
- RC Travel Policy – Standalone Document
- RC Travel Expense Form

¹²GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 10: 2014).

Southern California
Association of Governments

Regional Council Policy Manual

SOUTHERN CALIFORNIA



**ASSOCIATION of
GOVERNMENTS**

Adopted by the
SCAG Regional Council
July 12, 2007
Updated September 2009

**ARTICLE VI: STIPENDS, EXPENSE REIMBURSEMENTS, AND OTHER
GENERAL FUND EXPENDITURES**

Section 1: Regional Council Stipend and Meeting Expense Policy
(Amended February 5, 2009, September 14, 2006, July 6,
2006, April 7, 2005, November 1, 2001, July 10, 1997,
November 4, 1993; Adopted July 1, 1993)

- 1.1 Regional Council (RC) members shall receive a minimum \$120 stipend for attendance and travel to SCAG sponsored meetings or other SCAG business as authorized by the Regional Council. Regional Council members may also receive reimbursement for public transit expenses or a mileage reimbursement based on travel distance between the member's seat of government and SCAG's downtown Los Angeles offices. Parking at SCAG's downtown Los Angeles office will be validated for RC Board members.
- 1.2 For attending meetings on behalf of SCAG at locations other than the SCAG Headquarters, RC members are eligible to receive the minimum stipend and mileage reimbursement for actual miles traveled and actual parking expenses. Mileage will be reimbursed at the prevailing federal reimbursement rate. RC Members must complete an expense reimbursement form and attach the signed meeting attendance sheet and parking receipt.
- 1.3 RC officers are eligible to receive up to eight (8) per diem stipends per month.
- 1.4 RC members are eligible to receive up to six (6) per diem stipends per month.
- 1.5 The President may authorize up to two (2) additional per diem stipends per month for RC members.
- 1.6 Nine (9) or more per diem stipends per month for Regional Council officers and members require Regional Council approval.
- 1.7 Regional Council members shall receive a stipend for attending a SCAG meeting pursuant to a signature on the meeting attendance form or other record of attendance provided pursuant to Sections 1.9 or 1.11 below.

- 1.8 Regional Council members will receive a stipend for attending the Regional Council meeting pursuant to signing both policy committee and Regional Council attendance forms. A Regional Council member may request from the President an excused absence from either meeting. The President will inform the Executive Assistant to the Regional Council of the approved absence and authorize payment of the stipend.
- 1.9 Regional Council members are eligible to receive a stipend to attend special meetings scheduled by the President via phone or videoconference. Staff shall record the names of the Regional Council members in attendance for the record and submit a copy to the Executive Assistant to the Regional Council for payment of the stipend.
- 1.10 Elected official representatives appointed by the President to SCAG policy committees or task forces shall serve with compensation. Elected official representatives to SCAG policy committees or task forces are eligible to receive a \$120.00 stipend for up to four (4) meetings per month pursuant to signing the meeting attendance form.
- 1.11 Elected official representatives periodically attending SCAG task force meetings or special meetings of the Policy Committees by teleconference or videoconference from SCAG remote sites are eligible to receive a stipend pursuant to signing the meeting attendance form and faxing a copy to the Executive Assistant to the Regional Council. Elected officials shall not attend regular meetings of the Policy Committee or Regional Council by teleconference or videoconference. Meetings conducted by teleconference or videoconference shall comply with the protocols set forth below in Section 4.
- 1.12 Food will be provided for Regional Council, Subcommittee, and Task Force meetings, and other meetings that include elected officials, in accordance with SCAG administrative policies and procedures. Except for Regional Council meetings, meetings should be scheduled if at all possible as to avoid the lunch hour.

Section 2: Regional Council Travel Policy

(Amended April 7, 2005, September 2, 2004, November 1, 2001;
Adopted June 6, 1996)

- 2.1 The Regional Council shall authorize in advance member business travel for purposes of officially representing SCAG in connection with an approved SCAG program, policy, plan, or as a legislative advocate on behalf of SCAG's approved legislative program. The Regional Council may authorize payment of SCAG business travel in conjunction with Regional Leadership

Development Programs. Prior approval is not required for travel to regular meetings of the Regional Council, General Assembly, Regional Council Retreat, NARC, CALCOG, Western COG, the MSRC, and RTAC.

- 2.2 The President is authorized to approve Regional Council member travel that is urgent, necessary, and required for the orderly conduct of the affairs of SCAG between regularly scheduled meetings of the Regional Council.
- 2.3 The Regional Council will authorize payment of SCAG business travel costs including, but not limited to, airfare, ground transportation, and meeting registration fees. Meals, lodging, and mileage will be paid consistent with federal per diem rates and reimbursement policies. Stipends will be paid for actual business days and will exclude travel days.
- 2.4 Any Regional Council member or elected official representative to policy committees that is required to travel 75 miles or more one way to attend a SCAG meeting at the main SCAG office in Los Angeles or are on the Executive/Administration Committee can be reimbursed for overnight lodging costs not to exceed \$150.00 + taxes. This provision does not apply to attendance at the General Assembly or retreat. Attendance at those events will be reimbursed based on the venue. Regional Council members and elected official representatives must make their own travel arrangements and submit receipts to the Executive Assistant for reimbursement. The President is authorized to approve lodging costs above the \$150.00 diem rate if the government rate is not available and the member or elected official representative has made the reservation two weeks in advance.
- 2.5 Requests for travel reimbursement must be received by SCAG staff by July 31st of the fiscal year in which the authorized travel costs were incurred.

Section 3: Travel Reimbursement Policy for Appointed Committee Members
(Adopted November 6, 2003)

SCAG will reimburse travel expenses for Appointed Committee Members in accordance with the following:

3.1 Eligibility

- A. Members of SCAG committees and task forces, appointed by the President of the Regional Council who are not working for public agencies and not being otherwise reimbursed.
- B. The meeting must be held at SCAG offices.

- C. Reimbursement is limited to members who are not working for or receiving a stipend from a public agency, and are not Regional Council members or subregional representatives.

3.2 Reimbursement

- A. Costs associated with the following:
 - 1. Mileage (round-trip);
 - 2. Public Transit (round-trip); and
 - 3. Parking (validation)
- B. Reimbursement must be in accordance with Caltrans and SCAG travel policies, including requirement of submitting supporting documentation.

Section 4: Protocols for Teleconferencing and Videoconferencing of Public Meetings⁸ (Adopted March 5, 2009)

4.1 Teleconferencing Protocols

1. Teleconferencing locations shall be listed on the meeting agenda.
2. Meeting agendas shall be posted at each teleconferencing location prior to the meeting.
3. Each teleconferencing location shall be accessible to the public.
4. SCAG staff to provide agenda packets, handouts and materials for the meeting to Committee, Subcommittee or Task Force members prior to the meeting.
5. Teleconference numbers to be utilized solely by Committee, Subcommittee or Task Force members, not by members of the public or staff of other public agencies.
6. Chair of respective Committee, Subcommittee or Task Force to preside over the meeting and to the extent feasible, attend the meeting in person at the SCAG Los Angeles main office.
7. Chair of respective Committee, Subcommittee or Task Force to seek comments from members participating in the meeting by teleconference.
8. Chair of respective Committee, Subcommittee or Task Force to seek public comments from all teleconferencing locations.
9. A roll call vote shall be conducted for all agenda items requiring a vote of the Committee, Subcommittee or Task Force.

⁸ These protocols shall only pertain to special meetings of the Policy Committees (EEC, CEHD and TC), and meetings of Task Forces and Subcommittees. Teleconferencing and videoconferencing of Regional Council meetings or regular meetings of the Policy Committees is not permitted pursuant to Art. VI, Section 1.11 above.

4.2 Videoconferencing Protocols

1. Videoconferencing locations shall be listed on the meeting agenda.
2. Meeting agendas shall be posted at each videoconferencing location prior to the meeting.
3. Each videoconferencing locations shall be accessible to the public.
4. Total of six (6) locations to provide videoconferencing of meetings.
5. Videoconference locations to be established from amongst SCAG Regional Offices (Los Angeles, Riverside, Orange County, Ventura, Imperial and San Bernardino).
6. SCAG staff to provide agenda packets, handouts and materials for the meeting to Committee, Subcommittee or Task Force members prior to the meeting.
7. SCAG staff to provide speaker cards and membership attendance sheets at videoconference locations.
8. SCAG staff to coordinate and provide assistance with videoconference portions of the meeting.
9. Chair of respective Committee, Subcommittee or Task Force to preside over the meeting and to the extent feasible, attend meeting in person at the SCAG Los Angeles main office.
10. Chair of respective Committee, Subcommittee or Task Force to conduct separate call for public comment from all videoconferencing locations.
11. A roll call vote shall be conducted for all agenda items requiring a vote of the Committee or Task Force.
12. Teleconferencing will only be used as a back-up in the event of videoconferencing connection failure.

Regional Council Travel Policy

1. The Regional Council shall authorize in advance member business travel for purposes of officially representing SCAG in connection with an approved SCAG program, policy, plan, or as a legislative advocate on behalf of SCAG's approved legislative program. The Regional Council may authorize payment of SCAG business travel in conjunction with Regional Leadership Development Programs. Prior approval is not required for travel to regular meetings of the Regional Council, General Assembly, Regional Council Retreat, NARC, CALCOG, Western COG, the MSRC, and RTAC.
2. The President is authorized to approve Regional Council member travel that is urgent, necessary, and required for the orderly conduct of the affairs of the SCAG between regularly scheduled meetings of the Regional Council
3. The Regional Council will authorize payment of SCAG business travel costs including, but not limited to, airfare, ground transportation, and meeting registration fees. Meals, lodging, and mileage will be paid consistent with federal per diem rates and reimbursement policies. Stipends will be paid for actual business days and will exclude travel days.
4. Any Regional Council member or elected official representative to policy committees that is required to travel 75 miles or more one way to attend a SCAG meeting at the main SCAG office in Los Angeles or are on the Executive Committee can be reimbursed for overnight lodging costs not to exceed \$150.00 + taxes. This provision does not apply to attendance at the General Assembly or retreat. Attendance at those events will be reimbursed based on the venue. Regional Council members and elected official representatives must make their own travel arrangements and submit receipts to the Executive Assistant for reimbursement. The President is authorized to approve lodging costs above the \$150.00 diem rate if the government rate is not available and the member or elected official representative has made the reservation two weeks in advance.

REPORT

DATE: November 29, 2016

TO: Audit Committee

FROM: Catherine Kirschbaum, Chief Information Officer, 213-236-1973, kirschbaum@scag.ca.gov

SUBJECT: SCAG Information Security Status

RECOMMENDED ACTION:

For Information Only-No Action Required.

EXECUTIVE SUMMARY:

Cybersecurity is one of the most serious national and international security challenges of our time. Cybersecurity is not just an Information Technology (IT) problem; organizations worldwide are addressing security issues in a holistic and collaborative approach. Currently, SCAG protects its systems and data from cybersecurity threats through multiple layers of systems, controls and practices. In calendar year 2017, SCAG will assess and deploy additional security measures to meet expanding needs.

STRATEGIC PLAN:

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

BACKGROUND:

In 2011, SCAG's auditor, Vasquez and Co., LLC, recommended nine (9) enhancements to SCAG's information technology, security and operational practices and systems. In the five years since those recommendations were made, SCAG has made substantial, critical investments to enhance its security and disaster profile.

SCAG maintains multiple layers of protections to detect and defend attempts at unauthorized access; ensure availability of data and systems for daily operations; and expedite recovery from system loss or failure. These installed systems and practices have thus far led to a low incidence of intrusion, infection, outages and data loss. These protections include: two highly redundant, commercially managed data centers with built-in environmental controls and redundancy, the primary site in Las Vegas which has a low risk of natural disasters, and the secondary site in Los Angeles, soon to be relocated to Irvine; strong firewall and network perimeter security systems; third-party email filtering and firewall monitoring services that result in continuous malware quarantine and daily firewall updates; endpoint antivirus and malware protection; web filtering that includes blocking of known malware sites; complex passwords with enforced expiration; onsite and cloud-based backup and recovery; virtual machine backups that simplify and expedite recovery after a disaster; physical data center access controls; wifi networks that separate employee and guest access; frequent communication with employees regarding social engineering threats; and formal stakeholder review and sign-off of audit trails from the financial system.

REPORT

In calendar year 2017, in light of expanding criminal activity and threats, SCAG will select a third-party consultant to assess SCAG's information and cyber security systems and recommend further enhancements to SCAG's systems and practices. The Request for Proposals (RFP) will be released in December with consultant expected to begin work in early 2017. This engagement will identify areas of information and cybersecurity weaknesses; test SCAG's new data communications network; review and test system and data access controls; raise executive and staff security awareness; and identify improvements in information security oversight and governance, including potential adoption of IT audit and security frameworks and practices. This work will be completed prior to the upcoming expansion of SCAG's online development efforts with partners and members, including Caltrans for the Active Transportation Database and local jurisdictions for the 2020 RTP/SCS input process.

FISCAL IMPACT:

None

ATTACHMENT:

None

REPORT

DATE: November 29, 2016

TO: Audit Committee

FROM: Richard Howard, Internal Auditor, (213) 236-1905, howard@scag.ca.gov

SUBJECT: Ethics Hotline and Case Management Services

RECOMMENDED ACTION:

For Information Only – No Action Required.

EXECUTIVE SUMMARY:

SCAG plans to hire a consultant to establish an ethics hotline and reporting system that is available 24 hours a day, seven days a week, and includes a variety of methods for reporting incidents.

To help ensure that SCAG’s work is carried out in accordance with SCAG policies, professional standards, and in an ethical manner, SCAG maintains an ethics hotline that allows individuals to report any conduct that may be unethical, illegal, in violation of professional standards, or otherwise inconsistent with SCAG policies. The hotline is available for employees, consultants, and the public. SCAG’s ethics hotline is currently managed in-house by the Internal Audit department, and is posted on both SCAG’s internet website and intranet—see <http://www.scag.ca.gov/opportunities/Pages/BusinessWithSCAG.aspx>. SCAG plans to hire a consultant to establish an ethics hotline and reporting system that includes methods other than phone number for reporting incidents, and is available 24 hours a day, seven days a week. The aim is that an outsourced ethics hotline and reporting system may provide an extra layer of anonymity, which may make individuals feel more comfortable reporting any concerns or issues. Internal Audit would be alerted of any reported incidents for potential follow-up actions.

SCAG issued a request for proposal (RFP) for an ethics hotline and case management services on September 1, 2016. The RFP closed on September 29, 2016. Staff is finalizing the contract and in order to maintain the integrity of the procurement process, until it is executed, can only disclose that the selected company shall have experience providing hotline services for a variety of clients, including local and state governments. Services shall include a phone-based hotline in addition to reporting via the internet and U.S. mail, as well as a case management system that tracks reported incidents and allows individuals to check on the status of any incident they report while providing total anonymity. For example, an individual reporting an incident is provided a random tracking number that they can use to log-in to the case management system to check whether their concern was accurately recorded. Incidents shall be reported via designated employees at SCAG, such as Internal Audit, Legal, and Human Resources (SCAG’s management determines who will receive the incident reports). The selected company shall also provide a monthly report showing the number of incidents reported. Staff plans to execute the contract by December 2016.

FISCAL IMPACT:

Total cost is estimated to be less than \$30,000 over the next five (5) years.

ATTACHMENT:

None

This Page Intentionally Left Blank

REPORT

DATE: November 29, 2016
TO: Audit Committee
FROM: Richard Howard, Internal Auditor, (213) 236-1905, howard@scag.ca.gov
SUBJECT: Internal Audit Status Report

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 August 16, 2016, four (4) pre-award audits of contract proposals were completed.

The four consist of the following:

<u>Consultant</u>	<u>Proposal Amount</u>	<u>Questioned Costs</u>	<u>Question Costs Sustained</u>
Stratiscope	\$199,500	Rate Review	N/A
Stantec	224,932	3,076	3,076
Calthorpe	27,580	-0-	-0-
Robert Wall	123,775	Rate Review	N/A
Totals	\$575,787	\$3,076	\$3,076

A review of Regional Council and SCAG travel policies was performed. A separate report on the review is included in today’s agenda.

A report on the Ethics Hotline procurement is also included in today’s agenda.

FISCAL IMPACT:
None

ATTACHMENT:
None