



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

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Transportation
Cheryl Viegas-Walker, El Centro

MEETING OF THE

AUDIT COMMITTEE

Wednesday, October 23, 2019
10:30 a.m. – 12:00 p.m.

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

See Next Page for Other Meeting Locations

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 summers@scag.ca.gov. Agendas & Minutes for the Audit Committee are also available at: www.scag.ca.gov/committees

SCAG, in accordance with the Americans with Disabilities Act (ADA), will accommodate persons who require a modification of accommodation in order to participate in this meeting. SCAG is also committed to helping people with limited proficiency in the English language access the agency's essential public information and services. You can request such assistance by calling (213) 236-1908. We request at least 72 hours (three days) notice to provide reasonable accommodations and will make every effort to arrange for assistance as soon as possible.

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

Date: Wednesday, October 23, 2019

Time: 10:30AM-12:00PM

Location: SCAG Main Office

900 Wilshire, Suite 1700 – Policy Room B

Los Angeles, CA 90017

TO COMPLY WITH THE PROVISIONS OF THE BROWN ACT, PLEASE POST THE AGENDA AT YOUR LOCATION (GOVERNMENT CODE §54953)

LIST OF MEMBERS	MEETING LOCATIONS
1. Hon. Clint Lorimore, Chair <i>City of Eastvale, District 4</i>	3891 11th Street Riverside CA
2. Hon. Rex Richardson <i>City of Long Beach, District 29</i>	
3. Hon. Alan Wapner <i>City of Ontario, SBCTA</i>	
4. Hon. Sean Ashton, Vice Chair <i>City of Downey, District 25</i>	SCAG Main Office 900 Wilshire, Suite 1700 Los Angeles, CA 90017
5. Hon. Michael Carroll <i>City of Irvine, District 14</i>	Irvine City Hall, Council Conference Room 3 1 Civic Plaza Irvine, CA 92606
6. Hon. Margaret Clark <i>City of Rosemead, District 32</i>	Rosemead City Hall 8838 Valley Blvd. Rosemead, CA
7. Hon. Margaret Finlay <i>City of Duarte, District 35</i>	2221 Rim Rd. Duarte, CA 91008
8. Hon. Steve Manos <i>City of Lake Elsinore, District 63</i>	Lake Elsinore City Hall, City Council Office 130 S Main Street Lake Elsinore, CA 92530
9. Hon. Fred Minagar <i>City of Laguna Niguel, District 12</i>	
10. Sup. Linda Parks <i>Ventura County</i>	625 West Hillcrest Drive Thousand Oaks, CA 91360



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

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11. **Hon. Carmen Ramirez**
City of Oxnard, District 45
Oxnard City Hall Annex, 4th Floor
300 W. Third Street
Oxnard, CA. 93030
12. **Hon. Ali Saleh**
City of Bell, District 27
Bell City Hall
6330 Pine Avenue
Bell, CA 90201
13. **Hon. Marty Simonoff**
City of Brea, District 22
SCAG Orange County Office
OCTA Building, 600 S. Main St. #741
Orange, CA 92868
14. **Hon. Cheryl Viegas-Walker**
City of El Centro, District 1
Walker & Driskill, PLC
3205 S. Dogwood Rd., Suite B
El Centro, CA 92243
15. **Hon. Edward H.J. Wilson, CPA**
City of Signal Hill, GCCOG



AUDIT COMMITTEE AGENDA

Southern California Association of Governments
900 Wilshire Boulevard, Suite 1700
Los Angeles, California 90017
Wednesday, October 23, 2019
10:30 AM

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

CALL TO ORDER AND PLEDGE OF ALLEGIANCE
(The Honorable Clint Lorimore, Chair)

ROLL CALL

PUBLIC COMMENT PERIOD

Members of the public desiring to speak on items on the agenda, must fill out and present a Public Comment Card to the committee staff prior to speaking. Comments will be limited to three (3) minutes per speaker. The Chair has the discretion to reduce the time limit based upon the number of speakers and may limit the total time for all public comments to twenty (20) minutes.

REVIEW AND PRIORITIZE AGENDA ITEMS

CONSENT CALENDAR

Time **Page No.**

Approval Item

- | | | |
|--|--|---|
| 1. <u>Minutes of the June 27, 2019 Meeting</u> | | 1 |
|--|--|---|

ACTION/DISCUSSION ITEM

- | | | |
|---|---------|---|
| 2. <u>Internal Audit Charter</u>
<i>(Joshua Margraf, Internal Auditor)</i> | 10 mins | 8 |
|---|---------|---|

RECOMMENDED ACTION: Approve the updated Internal Audit Charter.

INFORMATION ITEMS

- | | | |
|---|---------|-----|
| 3. <u>Caltrans Audits' Corrective Action Plans Status Update</u>
<i>(Kome Ajise, Executive Director)</i> | 25 mins | 13 |
| 4. <u>Invoicing Review</u>
<i>(Joshua Margraf, Internal Auditor)</i> | 15 mins | 106 |



Page No.

5. <u>Internal Audit Status Report</u> <i>(Joshua Margraf, Internal Auditor)</i>	10 mins	114
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FUTURE AGENDA ITEM/S

ANNOUNCEMENT/S

ADJOURNMENT

The next regular meeting of the Audit Committee will be held on Wednesday, January 29, 2020.



Southern California Association of Governments
900 Wilshire Boulevard, Suite 1700, Los Angeles, California 90017
October 23, 2019

**AUDIT (AC) COMMITTEE
MINUTES OF THE MEETING
THURSDAY, June 27, 2019**

THE FOLLOWING MINUTES ARE A SUMMARY OF ACTIONS TAKEN BY THE AUDIT COMMITTEE. A VIDEO RECORDING OF THE ACTUAL MEETING IS AVAILABLE AT: <http://scag.ig2.com/Citizens/>

The Audit Committee met at SCAG, 900 Wilshire Blvd., 17th Floor, Los Angeles, CA 90017. The meeting was called to order by Chair, Rex Richardson. A quorum was present.

Members Present:

Hon. Rex Richardson, Chair	Long Beach	District 29
Hon. Sean Ashton, Vice Chair	Downey	District 25
Hon. Michael Carroll	Irvine	District 14
Hon. Margaret Clark	Rosemead	District 32
Hon. Steve Manos	Lake Elsinore	District 63
Hon. Fred Minagar	Laguna Niguel	District 12
Sup. Linda Parks		Ventura County
Hon. Carmen Ramirez	Oxnard	District 45
Hon. Ali Saleh	Bell	District 27
Hon. Marty Simonoff	Brea	District 22
Hon. Cheryl Viegas-Walker	El Centro	District 1
Hon. Alan D. Wapner		SBCTA

Members Not Present

Hon. Edward Wilson	Signal Hill	GCCOG
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CALL TO ORDER AND PLEDGE OF ALLEGIANCE

Chair Richardson called the meeting to order at 10:33 a.m. A roll call announcement was made and it was determined that a quorum was present.

PUBLIC COMMENT PERIOD

There were no public comments.

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REVIEW AND PRIORITIZE AGENDA ITEMS

Chair Richardson asked that the Staff Report item: "Audit Committee Meeting Schedule" be moved to be heard first. After discussion, the Committee confirmed that Audit Committee meetings will be held quarterly on the last Wednesday of the month, beginning at 10:30 A.M. A schedule confirming actual dates and times will be distributed to AC Members.

SELECTION OF VICE CHAIR

BY ACCLAMATION, a motion was made (Ashton) to nominate and select the Honorable Sean Ashton, City of Downey, as Vice-Chair. The motion was SECONDED (Viegas-Walker) and passed by the following roll call vote:

FOR: Richardson, Ashton, Carroll, Clark, Manos, Minagar, Parks, Ramirez, Saleh, Simonoff, Viegas-Walker and Wapner (12).

AGAINST: None (0).

ABSTAIN: None (0).

CONSENT CALENDAR

Approval Item

1. Minutes of the March 21, 2019 Meeting

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

FOR: Richardson, Ashton, Carroll, Clark, Manos, Minagar, Parks, Ramirez, Saleh, Simonoff, Viegas-Walker and Wapner (12).

AGAINST: None (0).

ABSTAIN: None (0).

INFORMATION ITEMS

2. Fiscal Year (FY) 2018-19 External Auditor Preliminary Update

Josh Margraf introduced Roger Alfaro, Partner, Vavrinek, Trine, Day and Company, LLP (VTD), SCAG's external financial auditors. Mr. Alfaro presented an overview of its audit process on SCAG for the fiscal year ended (FY) 2018-19.

Mr. Alfaro highlighted areas of the audit's scope and timing as well as key areas of emphasis and responsibility, including sufficiency of internal controls to assess the risks of material mismanagement; details of the audit approach, planning, and risk assessment. Additionally, Mr. Alfaro outlined management responsibilities as they relate to the audit.

Mr. Alfaro's presentation of VTD's work plan for SCAG's FY 2018-19 financial audit highlighted some of the audit planning and risk assessment services to be provided:

- Internal Control Evaluation and Testing;
- Preliminary Risk Assessment;
- Testing on Compliance and Internal Controls Required by U.S. Generally Accepted Governmental Auditing Standards (GAGAS); Reporting on Schedule of Expenditure of Federal Awards and on Compliance as required by the Single Audit Act;
- Preparation of the draft Comprehensive Annual Financial Report (CAFR);
- For Single Audit, express an opinion on compliance applicable to major federal programs.

Mr. Alfaro reported that SCAG would receive a report on the Internal Controls and an Unmodified Opinion for its FY 2018-19 financial statements (CAFR), Single Audit and Compliance Report in the months of November/December, 2019.

Mr. Alfaro responded to comments and questions expressed by Committee members regarding the length of time VTD has been in service to SCAG performing SCAG's external audits. He indicated that this is the third year VTD has provided financial audit services to SCAG.

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

Chair Richardson asked the Committee to review the audit presentation and if additional questions to reach out to Mr. Alfaro or to Josh Margraf.

3. Caltrans Audits Corrective Action Plans

Kome Ajise, Executive Director provided background information on and follow-up of the Caltrans Audits Correction Action Plan (CAP) letter that addressed the findings from the Incurred Cost Audit and the Indirect Cost Allocation Plan (ICAP). Mr. Ajise referred to page 106 of the agenda packet, which

describes SCAG proposed corrective actions for the types of deficiencies identified by the Caltrans audit findings that include, but are not limited to the following:

- Improper procurement practices
- Contract management deficiencies
- Labor and fringe benefit deficiencies
- Billing and reporting deficiencies

Mr. Ajise noted that SCAG has already begun making all of the corrections specified in the Caltrans audit findings and recommendations. SCAG has also made improvements by updating agency policies and procedures with all applicable requirements as well as providing staff training.

Mr. Ajise stated that he and SCAG's Executive Management met with representatives from Caltrans, FHWA and FTA on June 21, 2019 to discuss SCAG's approach for finalizing responses to the CAP letters, which are to be submitted to Caltrans by August 1, 2019. He noted that they were encouraged by the discussion.

Mr. Ajise provided an overview of the disallowed costs, and noted that the largest component said costs was due to charging staff time incorrectly. He noted that SCAG has corrected this deficiency and that staff continues to make progress and improvements via project management policy and procedures updates. He stated that SCAG would not know the status the total amount of money to be repaid to Caltrans until after Caltrans has reviewed SCAG's responses to the CAP letters.

SCAG staff responded to comments and questions expressed by the Committee members, including questions regarding payback of disallowed costs ; if there were particular staff members directly at fault for the audit findings; if there is adequate staff to manage areas identified in the audit; the basis for expired amended contracts; sponsorship concerns; and travel reimbursement policies for executive staff.

The Committee requested that staff re-send the March 21, 2019 AC Agenda packet, specifically, the staff report titled, *"Review of Independent Cost Estimates for SCAG Requests for Proposals,"* to Committee members so new members can gain a better understanding of past issues raised by audits. The Committee also requested a copy of the *"Corrective Action Plan Matrix"* with larger print from today's AC Agenda packet.

In conclusion, Chair Richardson asked staff to bring back to the Committee for discussion and adoption by the Board, a staff report on SCAG's repayment schedule to Caltrans. Additionally, he asked the Committee to reach out to staff if they have any additional questions.

4. Internal Audit Status Report

Joshua Margraf, Internal Auditor, provided a brief overview of the Internal Audit Status Report. For the new members of the AC, he described the overall audit process, including the pre-award reviews process and non-auditing services performed, for the items contained in the Internal Audit Status report.

Mr. Margraf provided highlights of the report including, in particular, Section C., *Audit Standards* and Section E., *Ethics Hotline Monitoring*. In Section E., he noted that there were three anonymous reports submitted to the hotline but that two reports were closed due to lack of sufficient information for further review. He commented that a high-level summary on the report findings of the third anonymous report, would be included in an updated Internal Status Report.

ACTION/DISCUSSION ITEM

5. Annual Audit Work Plan

Joshua Margraf, Internal Auditor, provided an overview of the proposed Annual Internal Audit Work Plan for FY 2019-20. The plan listed and described the audit areas, which included (but not limited to) pre-award reviews, project management, assist-policies and procedures, IT controls, assist-external audits and Ethics Hotline monitoring. He also described current audit work, findings and the request to review SCAG's ability to implement the corrective action as well as the extent to which SCAG has addressed them, to include the repayment schedule and specific procedures. Mr. Margraf indicated that the internal audit function has not been involved in SCAG's response to the CAP letters. The proposed plan is based on prior audit work as well as risk areas. It also takes into consideration any findings from external audits (e.g. financial auditors). Mr. Margraf asked the Committee to provide any additional priorities for the Work Plan and to approve the FY 2019-20 annual audit plan.

It should be noted that before the vote was taken, Chair Richardson excused himself from the AC meeting and Vice Chair Ashton conducted the remainder of the meeting.

A MOTION was made (Carroll) and SECONDED (Manos) to approve the Annual Audit Workplan. The motion was passed by the following roll call vote:

FOR: Ashton, Carroll, Clark, Manos, Minagar, Parks, Ramirez, Saleh, Viegas-Walker and Wapner (10).

AGAINST: None (0).

ABSTAIN: None (0).

6. Audit Standards

Joshua Margraf, Internal Auditor, provided background information as to the requirements for adopting either Red Book or Yellow Book audit standards. He provided highlights of the differences between the two sets of audit standards acceptable for local government employees conducting audits. He noted that the Red Book audit standards may better suit SCAG's internal audit function given the type of work it performs.

Mr. Margraf asked the Committee to approve the adoption and use of Red Book audit standards by the internal audit function.

A MOTION was made (Ramirez) and SECONDED (Clark) to approve Staff's recommendation. The motion was passed by the following roll call vote:

FOR: Ashton, Carroll, Clark, Manos, Minagar, Parks, Ramirez, Saleh, Viegas-Walker and Wapner (10).

AGAINST: None (0).

ABSTAIN: None (0).

STAFF REPORT

Audit Committee Meeting Schedule - this item was reprioritized and discussed at the beginning of the meeting.

FUTURE AGENDA ITEM

No Future Agenda Items were given

ANNOUNCEMENTS

Hon. Alan Wapner asked whether the internal audit function is adequately staffed given that previously there were two auditors, and recommended that staff bring any matters related to additional audit staffing needs to the Regional Council to ensure that the internal audit function is not overloaded. Staff concurred and explained that some services, including pre-award reviews are potentially being moved into the Contracts department.



ADJOURNMENT

There being no further business, Vice Chair Ashton adjourned the Audit Committee meeting at 11:45 a.m.

Respectfully submitted by:
Carmen Summers
Audit Committee Clerk

[MINUTES ARE UNOFFICIAL UNTIL APPROVED BY THE AUDIT COMMITTEE]

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Southern California Association of Governments
900 Wilshire Boulevard, Suite 1700, Los Angeles, California 90017
October 23, 2019

To: Audit Committee (AC)

EXECUTIVE DIRECTOR'S
APPROVAL

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

Subject: Internal Audit Charter

RECOMMENDED ACTION:

Approve the updated Internal Audit Charter.

STRATEGIC PLAN:

This item supports the following Strategic Plan Goal 7: Secure funding to support agency priorities to effectively and efficiently deliver work products.

EXECUTIVE SUMMARY:

The Internal Audit Charter has been updated to reflect the use of Red Book audit standards.

BACKGROUND:

The *Internal Audit Charter* establishes the Internal Audit Department’s position within SCAG, to include reporting relationships with the Audit Committee and management. In addition, the *Internal Audit Charter* authorizes access to records, personnel, and properties relevant to the performance of audit engagements as well as the type of audit standards the function will follow.¹

The Audit Committee approved the adoption of International Standards for the Professional Practice of Internal Auditing (i.e. “Red Book” standards) at the June meeting.² Internal Audit has reviewed and updated the *Internal Audit Charter* (see Attachment at page 1) to reflect the adoption of these standards.

CONCLUSION:

The *Internal Audit Charter* needs to reflect the current standards to be followed by the Internal Audit Department.

¹California Government Code requires city/county/district employees conducting audits to follow certain standards.

²Institute of Internal Auditors (IIA), *International Standards for the Professional Practice of Internal Auditing (Standards)* (Jan. 2017).

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FISCAL IMPACT:

None

ATTACHMENT(S):

1. Track Changes - Internal Audit Charter Sept

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 to the Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance. In addition, the internal audit function will adhere to SCAG's relevant policies and procedures, 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 an internal audit plan based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Audit Committee.

RESPONSIBILITY

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

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

- Prepare audit plans for internal audits; conduct appropriate follow-up research, prepare analysis and work papers to document audit work product and write audit reports.
- Participate in the development and implementation of new or revised SCAG audit programs, systems, procedures and methods of operation.
- Report all cases of actual or suspected loss, theft, misappropriation or misuse of SCAG monies or property immediately to the Chief Counsel and Chief Operating Officer.
- Review and coordinate any requests by outside agencies to conduct audits, which includes, but is not necessarily limited to, federal, state, county, or others with a contractual right to audit.

END OF CHARTER

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Southern California Association of Governments
900 Wilshire Boulevard, Suite 1700, Los Angeles, California 90017
October 23, 2019

To: Audit Committee (AC)

EXECUTIVE DIRECTOR'S
APPROVAL

From: Kome Ajise, Executive Director, 213-236-1835,
Ajise@scag.ca.gov

Subject: Caltrans Audits' Corrective Action Plans Status Update

RECOMMENDED ACTION:

For Information Only - No Action Required

STRATEGIC PLAN:

This item supports the following Strategic Plan Goal 7: Secure funding to support agency priorities to effectively and efficiently deliver work products.

EXECUTIVE SUMMARY:

At the August 1, 2019 Regional Council meeting, staff reported that SCAG had filed responses to the final Caltrans Corrective Action Plans, along with Plans of Cost Substitution, on July 12, 2019. This was in connection with the Incurred Cost Audit report and the Indirect Cost Allocation Plan Audit report which were issued by Caltrans in September 2018 and January 2019 respectively. The August 1st report and all attachments are attached to this report.

On October 8, 2019, SCAG received Caltrans' response to its July 12 submittal acknowledging receipt as well as requesting supporting information and documentation to be sent to Caltrans by November 7, 2019. Copies of the Caltrans letters are attached. Staff will respond to this request and comply with all CAP provisions by the stated deadlines in the October 8th letter. This report provides a status update on the CAPs as well as other agency efforts underway to support continuous improvement for project management and related processes, policies, and procedures.

BACKGROUND:

Corrective Action Plans

Caltrans issued the final Corrective Action Plans (CAPs) for the Incurred Cost Audit (ICA) and Indirect Cost Allocation Plan (ICAP) Audit on May 7, 2019. At the time of receipt SCAG had already began the process of implementing the required steps in late 2018 based on preliminary audit reports from Caltrans. Since staff submitted its July response both Caltrans Planning and Modal Programs staff and SCAG staff agreed to extend the milestone for several findings that was listed as October 31,

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2019 to November 30, 2019.

The table below summarizes our progress to date:

Audit Type	100 % Complete	90%+ Complete	< 90% Complete	Total Recommendations
ICA	14	8	1	23
ICAP	10	6	0	16

As can be seen from the table above, this work is nearing its completion and is on schedule for completion by November 30, 2019, with the exception of fully implementing a Project Management Office which is the outstanding item related to the ICA recommendation not 90% complete.

Amongst the most significant steps taken so far include:

- (a) Adoption of the new Event Sponsorship Policy by the Regional Council at the August 1, 2019 meeting.
- (b) Establishment of the 4 P's staff committee on August 13, 2019, whose purpose is to meet Caltrans Corrective Action Plan requirements, as well as identify and establish best practices for project management and all related processes, policies and procedures. The 4 P's are co- led by the Chief Strategy Officer and Chief Financial Officer. The team consists of a core team of the Finance Managers, and a Regional Planner Specialist from Planning and includes advisory members of the Chief Counsel and Internal Auditor and Executive Sponsor, Chief Operations Officer. This team meets weekly and reports progress regularly at the Executive Team meetings, other management meetings and the All Staff Meeting.
- (c) The implementation of a new Travel Policy effective September 1, 2019 which is compliant with the State's HR policy. Training is occurring in October.
- (d) Completion of Caltrans training by key staff regarding the procurement of Architectural and Engineering projects. Additional training recently became available on demand through a Caltrans Webinar and will be made available to all staff required to take it.

The remaining work entails updating SCAG's Accounting, Budget & Grants, Procurement and Project Management Manuals to capture all of the Caltrans recommendations and then training staff on their implementation. The updated Procurement Manual which will include SCAG's written policies and procedures for architectural and engineering procurements will be subject to review and approval by the Regional Council in accordance with federal law. The completion target date for updated manuals and associated first round of training is November 30, 2019. An important element in going forward is providing ongoing training for new and existing employees to ensure the processes, policies and procedures are embedded in the organization's work.

The work on the Caltrans CAPs is the first part of a trio of initiatives under way as part of the 4 P's staff committee. While the CAPs work has a deadline of November 30, 2019, the other two initiatives will take longer to complete.

Procurement Process Streamlining

The second initiative relates mainly to SCAG streamlining its procurement model. In addition to the findings of the Caltrans Audit, SCAG staff also conducted a vendor survey to gain feedback and insights into how it can improve its processes to better serve the vendor population and increase the number of qualified bidders for SCAG work. The survey results overlapped with areas in the Caltrans Audit findings as well as general observations and views held by staff. A summary of the results are attached to this report. Since the survey was completed the 4 P's Committee has been charged with incorporating the results into the overall 4 P's effort.

It is also focused on finding ways to:

- (a) Reduce the number of contract amendments SCAG performs, and
- (b) Shorten SCAG's procurement cycle
- (c) Improving the overall process

Project Management

The third initiative concerns SCAG's project management. Several of the Caltrans findings confirmed that its overall project management practices and expertise were in need of improvement. As SCAG has grown over the years in scale and complexity, staff have adapted by implementing new procedures aimed at particular situations without thoroughly evaluating systemic improvements. Under the leadership of the Planning Director at the time, SCAG hired an outside consultant to evaluate all of SCAG's project management practices, including related procurement and financial processes, and to develop a cohesive and comprehensive package of improvements. The consultant's work has been completed and the 4 P's are working through implementing the improvements identified. This effort includes process improvement and establishment of an enterprise Project Management Office by June 30, 2020 which is intended to ensure solid agency wide project management practices are embedded and followed consistently.

This initiative will take the longest to complete since it requires process improvement work, and staffing not currently included in the SCAG budget.

FISCAL IMPACT:

The final Corrective Action Plans issued by Caltrans seek \$4,401,565 in reimbursement from SCAG as follows: \$2,148,589 for disallowed costs in Incurred Cost Audit and \$2,252,976 for disallowed costs in the Indirect Cost Allocation Plan Audit. The final amount of repayment is subject to Caltrans review of SCAG's submissions to the October 8th letters, due November 7th, as well as satisfactory compliance with all CAP provisions. Staff have formally proposed using other allowable

project costs to substitute for the disallowed costs. The October 8th letter indicates that the determination will be subject to Caltrans and Federal agencies' (FHWA and FTA) review and approval following SCAG's response to the October 8th letter and submittal of supporting documentation.

ATTACHMENT(S):

1. Caltrans Response ICAP Audit CAP 10.8.19
2. Caltrans Response SCAG IC Audit CAP 10.8.19
3. CAPs on RC Agenda of 8-1-19
4. ICA Matrix as of 10-15-19
5. ICAP Matrix as of 10-15-19
6. Vendor Survey
7. Survey Comments

DEPARTMENT OF TRANSPORTATION

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a California Way of Life.*

October 8, 2019

Mr. Kome Ajise
Executive Director
Southern California Association of Governments
900 Wilshire Blvd, Suite 1700
Los Angeles, CA 90017

Dear Mr. Ajise:

This letter is in response to the Southern California Association of Governments (SCAG) letter dated July 11, 2019, regarding the SCAG Fiscal Year (FY) 2016-17 Indirect Cost Allocation Plan (ICAP) Audit Corrective Action Plan. The California Department of Transportation (Caltrans) appreciates SCAG's response to outline the corrective actions that have or will be implemented as well as their cooperation and coordination with implementing the corrective action plan. In reviewing SCAG's responses, Caltrans requires additional clarification and documentation to fully resolve the audit findings and ensure the corrective actions will be implemented. Caltrans requests that SCAG respond within 30 days of this letter to provide additional information and acknowledge that supporting documentation is required upon completion of the corrective actions. Please note, the request for further clarification and documentation for corrective actions requested below may fulfill multiple findings. For findings where training is identified as a corrective action, SCAG must establish re-occurring training as a refresher to current staff and training for new staff.

Finding # 1—Improper Procurement Practices

SCAG's procurement practices for ten IT consultant procurements tested did not support that fair and open competition was performed, or that proper procurement procedures were followed as required by Caltrans agreement provisions, federal and State procurement requirements, and SCAG's policies and procedures. The noncompliant procurement practices resulted in unallowable costs billed direct to Caltrans in the amount of \$627,179 and unallowable indirect costs included in the FY 2014-15 actual indirect cost pool in the amount of \$164,628. Please provide additional information and/or documentation for the following based on SCAG's corrective action plan:

- A. Provide documentation that demonstrates how SCAG ensures costs that are not in compliance with federal and State procurement regulations are excluded

- from the indirect cost pool. SCAG should establish a review policy or procedure to ensure all unallowable costs are being excluded from their indirect cost pool.
- B. Provide an estimated date of completion for SCAG's Procurement Policies and Procedures manual. Please provide copy of the updated Procurement Policies and Procedures Manual and written guidance addressing the major changes made that comply with federal and State regulations issued by the SCAG Chief Financial Officer to all staff. Please provide a staff sign-in sheet and training materials for the training that will be provided to staff by November 30, 2019.
 - C. Provide an estimated date of completion for this corrective action. Provide a staff sign-in sheet and training materials for training conducted on February 11, 2019. Caltrans will work with SCAG to identify non-Architectural and Engineering (A&E) training and guidance.
 - D. Provide documentation to support that proper procurement procedures were followed for one executed contract that was executed after the issuance of the final audit report on January 9, 2019. Please provide a copy of the detailed sign-off sheet used by the Manager of Contracts to review and approve procurement actions.
 - E. Provide an estimated date of completion for this corrective action. Provide registration confirmation and a staff sign-in sheet for staff that attended the Caltrans' A&E training on August 15, 2019.
 - F. Please provide a staff sign-in sheet and training materials for "Using the American Association of State Highway Transportation Officials Audit Guide for the Procurement and Administration of A&E Contracts" training on May 22, 2019. Provide a staff sign-in sheet, agenda, and procurement training materials for the future All Staff Meeting.
 - G. Provide supporting documentation (such as, contract administration files, etc.) for the Division of Transportation Planning (DOTP) to make a preliminary determination on whether the substituted costs are allowable. A final determination will be based on concurrence with the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA).
 - H. Caltrans acknowledges that this corrective action is complete.
 - I. Caltrans acknowledges that this corrective action is complete.

Finding # 2–Deficient Charging Practices

SCAG's charging practices related to billing indirect and direct costs to Caltrans were deficient and resulted in billings that were not in compliance with Caltrans agreement provisions and federal and State regulations. Specifically, SCAG billed an indirect rate for FY 2016-17 that included unallowable direct and indirect costs and billed indirect and ineligible direct labor costs to a direct project/work element. The charging practices implemented by SCAG did not ensure the proper segregation of direct, indirect, and unallowable costs in the accounting records and costs included on the billings to Caltrans.

Finding 2A–Unallowable Indirect Costs Included in the FY 2016–17 ICAP

In testing 41 transactions within 15 indirect cost accounts for the FY 2014-15 carryforward, Caltrans found that SCAG included direct, unallowable, and unsupported costs in the indirect cost pool. Unallowable costs totaling \$196,617 were due to weak internal controls, improper charging practices, and non-compliant vendor procurements. Unallowable mileage costs totaling \$11,986 were also included in the indirect cost pool of SCAG's FY 16-17 ICAP. Please provide additional information and/or documentation for the following based on SCAG's corrective action plan:

- A. Caltrans acknowledges that this corrective action is complete.
- B. Caltrans acknowledges that this corrective action is complete.
- C. Provide an estimated completion date for this corrective action. Provide a copy of the updated Accounting Manual indicating that SCAG will review indirect accounts to ensure costs are in compliance with federal and State regulations; are properly segregated between direct, indirect and allowable; and are supported by original source documentation. Provide a staff sign-in sheet and training materials for training provided to staff by November 30, 2019.
- D. Caltrans acknowledges that this corrective action is complete.
- E. Provide an estimated completion date for this corrective action. Please submit a copy of the updated Accounting Manual indicating the established written policies and procedures for segregating direct and indirect legal costs in compliance with federal and State regulations. Please provide a staff sign-in sheet and training materials for the staff training that will be conducted by November 30, 2019.
- F. Provide an estimated completion date for this corrective action. Please submit

a copy of the updated Accounting Manual indicating that language which excludes the Internal Auditor from reviewing and approving travel expenses. Please provide a staff sign-in sheet and training materials for the staff training that will be conducted by November 30, 2019.

- G. Provide a copy of SCAG's new travel policy that is compliant with federal and State regulations regarding travel. Please provide a staff sign-in sheet and training materials for staff training that will be conducted by November 30, 2019.

Finding 2B–Unallowable Labor Costs

The Incurred Cost Audit, dated July 24, 2018, identified indirect and ineligible costs charged to the Work Element 120 which was established for direct costs related to development and administration of the Overall Work Program (OWP). This will impact the FY 2016–17 ICAP. Eligible tasks included the development of the OWP, preparation of the annual budget and amendments to the budget, and preparation of Quarterly Progress Reports. In the Incurred Cost Audit, Caltrans found that SCAG accountants and contract administrators charged time for the review and approval of consultant invoices which were ineligible and indirect in nature. SCAG's charging practices remained unchanged for FY 2016–17 and unallowable costs were billed to Work Element 120. Based on an analysis of SCAG's labor reports for FY 2016–17, \$1,625,797 of indirect labor related to accountants, contract administrators, and an internal auditor were inappropriately charged direct to the Work Element 120.

SCAG does not have adequate policies and procedures related to labor charging practices. In addition to billing ineligible costs identified, the inappropriate charging practices result in SCAG lacking accurate historical information related to actual costs for future budget purposes and overhead rate calculations. Please provide additional information and/or documentation for the following based on SCAG's corrective action plan:

- A. Provide supporting documentation (such as contract administration files, etc.) for the DOTP to make a preliminary determination on whether the substituted costs are allowable. A final determination will be based on concurrence with the FHWA and the FTA.
- B. Provide a copy of the Finance Manual and the Project Management Manual upon completion indicating the new policies and procedures to ensure billings to Caltrans are based on actual labor costs incurred. Please provide a staff sign-in sheet and training materials for the training that will be provided to staff by November 30, 2019.
- C. Provide a copy of the Finance Manual and the Project Management Manual

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Mr. Kome Ajise
October 8, 2019
Page 5

upon completion indicating proper and consistent labor charging practices and charging practices for staff meetings and other non-project or work element activities. Please provide a staff sign-in sheet and training materials for the training that will be provided to staff by November 30, 2019.

Conclusion:

Please provide the recommended documentation and anticipated completion dates for the corrective actions above to Erin Thompson, Chief, Office of Regional Planning within 30 days of this letter. After the proper course of action has been decided upon, SCAG must repay Caltrans for the disallowed costs according to a mutually-determined repayment method and schedule.

It is imperative that SCAG provide all requested documentation and completion of the audit corrective actions to ensure accountability for future SCAG projects and approval of FY 2020-21 OWP. No future federal and State expenditures will be approved by Caltrans, FHWA, or FTA unless a satisfactory resolution to all findings has been made. A final report detailing how and when all corrective actions were resolved will be due to the Caltrans DOTP upon the satisfactory fulfillment of all corrective actions. Caltrans has consulted with the FHWA and the FTA regarding the above course of action.

The Independent Office of Audits and Investigations may perform a follow-up audit after all corrective actions have been made to determine if SCAG has implemented adequate corrective measures for each audit finding and to ensure compliance with Caltrans agreements and federal and State rules and regulations. SCAG's progress with regards to the corrective actions and final resolutions will be closely monitored by Caltrans staff, including any follow-up audit work that may be performed. Additionally, all support documentation and corrective actions provided by SCAG will be reviewed by Caltrans staff.

We appreciate SCAG's cooperation and coordination during this process. If you have any questions, please contact Erin Thompson, Chief, Caltrans Office of Regional Planning, at (916) 654-2596 or by email sent to erin.thompson@dot.ca.gov.

Sincerely,



DAVE MOORE
Acting Deputy Director
Planning and Modal Programs

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to enhance California's economy and livability"*

Mr. Kome Ajise
October 8, 2019
Page 6

- c: Debbie Dillon, Deputy Executive Director, Administration, SCAG
- Basil Panas, Chief Financial Officer, SCAG
- Rodney Whitfield, Director of Financial Services, FHWA
- Tashia Clemons, Director, Planning and Environment, FHWA
- Veneshia Smith, Financial Manager, FHWA
- John Bulinski, District Director, District 7, Caltrans
- Marsue Morrill, Chief, External Audits-Local Governments, Independent Office of A&I, Caltrans
- Marlon Flournoy, Division Chief, DOTP, Caltrans
- Rihui Zhang, Chief, DLA, Caltrans
- Felicia Haslem, Acting Chief, Office of Guidance and Oversight, DLA, Caltrans
- Gilbert Petrissans, Chief, Division of Accounting
- Steve Novotny, DLA Engineer, District 7, Caltrans

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DEPARTMENT OF TRANSPORTATION

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October 8, 2019

Mr. Kome Ajise
Executive Director
Southern California Association of Governments
900 Wilshire Blvd, Suite 1700
Los Angeles, CA 90017

Dear Mr. Ajise:

This letter is in response to the Southern California Association of Governments (SCAG) letter dated July 12, 2019, regarding the SCAG Fiscal Year (FY) 2014-15 Incurred Cost Audit Corrective Action plan. The California Department of Transportation (Caltrans) appreciates SCAG's response to outline the corrective actions that have or will be implemented, as well as their cooperation and coordination with implementing the corrective action plan. In reviewing SCAG's responses, Caltrans requires additional clarification and documentation to fully resolve the audit findings and ensure the corrective actions will be implemented. Caltrans requests that SCAG respond within 30 days of this letter to provide additional information and acknowledge that supporting documentation is required upon completion of the corrective actions. Please note, the request for further clarification and documentation for corrective actions requested below may fulfill multiple findings. For findings where training is identified as a corrective action, SCAG must establish re-occurring training as a refresher to current staff and training for new staff.

Finding # 1—Improper Procurement Practices

SCAG did not ensure that fair and open competition was performed or that proper procurement procedures were followed as required by federal and State regulations and the Caltrans agreement provisions. Additionally, SCAG's Procurement Policy and Procedures Manual that was in effect during the period of procurements tested did not fully comply with federal and State procurement regulations and Caltrans agreement provisions. Please provide additional information and/or documentation for the following based on SCAG's corrective action plan:

- A. Provide an estimated date of completion for SCAG's updated Procurement Policies and Procedures manual. SCAG must adopt the guidance and federal regulations for Architectural and Engineering (A&E) contracting in Chapter 10 of

the Local Assistance Procedures Manual within their updated Procurement Policies and Procedures. Once the update to the policies and procedures is complete, please provide a copy of the Manual indicating compliance with all applicable federal and State procurement regulations. This includes revising section 6.6.2 to describe the different competitive procurement processes available and when each should be used in compliance with federal and State regulations.

- B. Provide registration confirmation and a staff sign-in sheet for staff that attended the Caltrans' A&E training on August 15, 2019.
- C. Provide a staff sign-in sheet and training materials for contracts and procurement training conducted on February 11, 2019. Caltrans will work with SCAG to identify non-A&E training and guidance.
- D. Provide the revised job descriptions or duty statements for the Contract Administrators and Manager of Contracts to indicate the restructured work assignments and roles and responsibilities.
- E. Provide documentation to support that proper procurement procedures were followed for one contract that was executed after the issuance of the final audit report on September 21, 2018. Please provide a copy of the detailed sign-off sheet used by the Manager of Contracts to review and approve procurement actions.
- F. Provide an estimated date of completion for this corrective action. Please provide a staff sign-in sheet and training materials for "Using the American Association of State Highway Transportation Officials Audit Guide for the Procurement and Administration of A&E Contracts" training on May 22, 2019. Provide a staff sign-in sheet, agenda, and procurement training materials for the future All Staff Meeting.

Finding # 2–Contract Management Deficiencies

SCAG's contract management system did not comply with federal and State regulations and Caltrans agreement provisions. We found that SCAG billed Caltrans for unsupported and unallowable consultant costs. Furthermore, we found that SCAG improperly managed consultant contracts, did not properly close-out consultant contracts, executed amendments on expired contracts, and could not support that all local match requirements were met. Additionally, SCAG lacked contract management policies and procedures detailing proper processes to manage

consultant and sub-recipient contracts and detailed procedures for reviewing and approving invoices. SCAG billed and was reimbursed \$590,537 in unsupported consultant costs and \$361,426 on an expired consultant contract. These costs are disallowed. Please provide additional information and/or documentation for the following based on SCAG's corrective action plan:

- A. Provide a copy of the procurement and contract management procedures upon completion and take training as prescribed in the corrective actions for Finding 1.
- B. Provide supporting documentation (such as contract administration files, etc.) for the Division of Local Assistance (DLA) to make a preliminary determination on whether the substituted costs are allowable. A final determination will be based on concurrence with the Federal Highway Administration (FHWA).
- C. Provide supporting documentation (such as contract administration files, etc.) for the Division of Transportation Planning (DOTP) to make a preliminary determination on whether the substituted costs are allowable. A final determination will be based on concurrence with the FHWA and the Federal Transit Administration (FTA).
- D. Provide an estimated date of completion for this corrective action. Please provide documentation of SCAG's amended contract template. Once SCAG has completed the update of the Procurement Policies and Procedures Manual and Accounting Manual to require the consultant to submit invoices that identify the work performed by task/activity and work element, please provide a copy to Caltrans. Provide a staff sign-in sheet and training materials for staff training conducted by November 30, 2019.
- E. Define the PMO office and clarify the acronym. Please provide documentation including, an updated organizational chart, established roles and responsibilities and work assignments for the staff of the PMO office, processes, tools, and procedures once actions have been implemented by June 30, 2020.
- F. Provide an estimated date of completion for the updated Grants Management Policies and Procedures and the Project Management Policies and Procedures manual. Once both documents are completed, please provide a copy to Caltrans.
- G. Provide documentation of the "Funding Summary" for a consultant contract indicating the funding sources and/or work elements of each task/activity when there are multiple funding sources and/or work elements.

- H. Provide an estimated date of completion for this corrective action. Please provide a copy of the updated Procurement Policies and Procedures Manual and identify compliance with all federal and State regulations over the administration of consultant contracts and that the contracts contain language as required in the Caltrans' agreements. Please provide a copy of one contract that was executed after the issuance of the final audit report on September 21, 2018, that demonstrates compliance.
- I. Provide a copy of the updated sub-recipient Memo of Understanding (MOU) agreement template as well as the revised Grants Policies and Procedures Manual that identifies new MOU language. Please provide a staff sign-in sheet and training materials for the training for project managers that will be completed by November 30, 2019.
- J. Provide a copy of the 2019 Grants Policies and Procedures Manual. Please provide a staff sign-in sheet and training materials that demonstrate staff is appropriately trained on the administration and management of consultant and sub-recipient pass-through funds by November 30, 2019.

Finding # 3–Labor and Fringe Benefit Deficiencies

SCAG's labor and fringe benefit charging practices do not comply with Caltrans Agreement requirements, and federal and State regulations. SCAG does not have adequate policies and procedures related to labor charging practices, no documented procedures to account for timesheet corrections or retroactive pay and merit increases. In addition to billing ineligible costs, the inappropriate charging practices result in SCAG lacking accurate historical information related to actual costs for future budget purposes and overhead rate calculations. SCAG billed and was reimbursed a total of \$1,558,051 in ineligible labor charges to the Overall Work Program (OWP) work element 120. Please provide additional information and/or documentation for the following based on SCAG's corrective action plan:

- A. Provide supporting documentation (such as contract administration files, etc.) for DOTP to make a preliminary determination on whether the substituted costs are allowable. A final determination will be based on concurrence with the FHWA and the FTA.
- B. Provide documentation of the new policies and procedures for labor charging, the finance manuals, and the new Project Management Manual to demonstrate SCAG's billings to Caltrans are based on actual labor costs incurred. Please

provide a staff sign-in sheet and training materials for the training that will take place to all staff by November 30, 2019.

- C. Provide documentation for the new procedure for retroactive pay that SCAG implemented in October 2018 ensuring accounting methodology for retroactive pay and merit increases provides for an audit trail for changes made to the employee timesheets and costs are allocated to the appropriate pay periods.
- D. Provide a copy of the updated Accounting Manual and new Project Management Manual that demonstrates the implementation of written policies and procedures for proper and consistent labor charging practices for staff meetings and other non-project or work element activities. Please provide a staff sign-in sheet and training materials for the training for all staff that will be conducted by November 30, 2019.
- E. Provide a copy of the updated Accounting Manual, demonstrating the inclusion of procedures for timesheet corrections and retroactive pay and merit increases. Provide staff a sign-in sheet and training materials for the training for all staff that will be conducted by November 30, 2019.
- F. Provide documentation of the new fringe benefit allocation methodology for non-regular staff, interns, and student assistants that were implemented in the accounting system in July 2018. Upon completion, please provide a copy of the updated 2019 Budget and Grants Policies and Procedures manual.

Finding #4–Billing and Reporting Deficiencies

SCAG did not submit required documentation with their requests for reimbursement to support costs billed and did not submit Quarterly Progress Reports in accordance with the DOTP Master Fund Transfer Agreement and the DLA Master Agreement. Please provide additional information and/or documentation for the following based on SCAG's corrective action plan:

- A. Provide a copy of the billing document checklist for billings to Caltrans that demonstrates the inclusion of all applicable information and supporting documentation that traces the billed costs and SCAG's financial management system. Caltrans DOTP acknowledges that SCAG submits a consolidated Planning Grant IT Report with each billing.

- B. Provide any policies, procedures, or documentation that ensures supporting schedules provided with the billings include appropriate descriptions detailing where costs are being charged.

Finding #5–Possible Conflict of Interest with Sponsorship Program

SCAG's Sponsorship Program gives the appearance of a possible conflict of interest. SCAG created a Sponsorship Program to solicit donations from individuals, entities, and organizations with an interest in accessing participants of SCAG's General Assembly for networking, relationship building, business opportunities, and information sharing. We noted that SCAG solicits and receives donations from consultants for its Sponsorship Program with whom they also enter into consultant contracts to perform work. SCAG lacks a documented process over the Sponsorship Program to ensure a conflict of interest does not occur. Additionally, SCAG does not have documented policies and procedures over the administration and management of the Sponsorship Program. Please provide additional information and/or documentation for the following based on SCAG's corrective action plan:

- A. Provide clarification regarding the consultant database referenced in the Event Sponsorship Policy document. Please specify the consultants/vendors that are included in the database and if the database only includes current or past consultants/vendors of SCAG. Please provide a copy of the SCAG Event Sponsorship Policy once adopted.
- B. Provide a copy of the SCAG Event Sponsorship Procedures once adopted.
- C. Provide a copy of the Conflict of Interest Statement of Certification form to document compliance with SCAG's policies and procedures once adopted.

Conclusion:

Please provide the recommended documentation and anticipated completion dates for the corrective actions above to Erin Thompson, Chief, Office of Regional Planning, and Felicia Haslem, Acting Chief, Office of Guidance and Oversight, within 30 days of this letter. After the proper course of action has been decided upon, SCAG must repay Caltrans for the disallowed costs according to a mutually-determined repayment method and schedule.

It is imperative that SCAG provides all requested documentation and completion of the audit corrective actions to ensure accountability for future SCAG projects and approval of the FY 2020-21 OWP. No future federal and State expenditures will be approved by Caltrans, the FHWA, or the FTA unless a satisfactory resolution to all

Mr. Kome Ajise
October 8, 2019
Page 7

findings has been made. A final report detailing how and when all corrective actions were resolved will be due to the Caltrans DOTP and the DLA upon the satisfactory fulfillment of all corrective actions. Caltrans has consulted with the FHWA and the FTA regarding the above course of action.

The Independent Office of Audits and Investigations may perform a follow-up audit after all corrective actions have been made to determine if SCAG has implemented adequate corrective measures for each audit finding and to ensure compliance with Caltrans agreements and federal and State rules and regulations. SCAG's progress with regards to the corrective actions and final resolutions will be closely monitored by Caltrans staff, including any follow-up audit work that may be performed. Additionally, all support documentation and corrective actions provided by SCAG will be reviewed by Caltrans staff.

We appreciate SCAG's cooperation and coordination during this process. If you have any questions, please contact Erin Thompson, Chief, Caltrans Office of Regional Planning, at (916) 654-2596 or by email sent to erin.thompson@dot.ca.gov or Felicia Haslem, Acting Chief, Office of Guidance and Support, at (916) 653-7759 or by email sent to felicia.haslem@dot.ca.gov.

Sincerely,



DAVE MOORE
Acting Deputy Director
Planning and Modal Programs

c:\`Debbie Dillon, Deputy Executive Director, Administration, SCAG
Basil Panas, Chief Financial Officer, SCAG
Rodney Whitfield, Director of Financial Services, FHWA
Tashia Clemons, Director, Planning and Environment, FHWA
Veneshia Smith, Financial Manager, FHWA
John Bulinski, District Director, District 7, Caltrans
Marsue Morrill, Chief, External Audits-Local Governments, Independent Office of
Audits and Investigations, Caltrans
Marlon Flournoy, Division Chief, DOTP, Caltrans
Erin Thompson, Chief, Regional Planning, DOTP, Caltrans
Rihui Zhang, Chief, DLA, Caltrans
Felicia Haslem, Acting Chief, Office of Guidance and Oversight, DLA, Caltrans
Gilbert Petrissans, Chief, Division of Accounting
Steve Novotny, DLA Engineer, District 7, Caltrans



Southern California Association of Governments
900 Wilshire Boulevard, Suite 1700, Los Angeles, California 90017
August 1, 2019

To: Executive/Administration Committee (EAC)
Regional Council (RC)

**EXECUTIVE DIRECTOR'S
APPROVAL**

From: Kome Ajise, Executive Director, Executive Management, 213-
236-1835, Ajise@scag.ca.gov

Kome Ajise

Subject: Caltrans Audits' Final Corrective Action Plans

RECOMMENDED ACTION FOR EAC:

For Information Only

RECOMMENDED ACTION FOR RC:

Receive and File

STRATEGIC PLAN:

This item supports the following Strategic Plan Goal 7: Secure funding to support agency priorities to effectively and efficiently deliver work products.

EXECUTIVE SUMMARY:

At the Audit Committee meeting of June 27, 2019, staff reported that on May 7, 2019, SCAG had received from Caltrans the final Corrective Action Plans to address the findings in the Incurred Cost Audit issued on September 21, 2018 and the Indirect Cost Allocation Plan Audit issued on January 9, 2019. Staff also reported that SCAG's Executive Management had met with representatives from Caltrans, FHWA and FTA in Sacramento on June 21, 2019 to discuss SCAG's approach for finalizing its responses to the Corrective Action Plans (CAPs) which were due to Caltrans August 1, 2019. SCAG did file formal responses to the final CAPS, along with Plans of Cost Substitution, on July 12, 2019. SCAG staff is awaiting the State's reply to SCAG's formal responses.

BACKGROUND:

On May 5, 2016 Caltrans informed SCAG that it would be audited with respect to certain incurred and indirect costs. The scope of the audit was to determine:

- Whether costs claimed by and reimbursed to SCAG between April 1, 2015 and June 30, 2015, are adequately supported and in accordance with respective Caltrans Agreement Provisions and state and federal regulations.
- Whether SCAG's FY2015/15 Indirect Cost Rate Proposal was prepared in accordance

OUR MISSION

To foster innovative regional solutions that improve the lives of Southern Californians through inclusive collaboration, visionary planning, regional advocacy, information sharing, and promoting best practices.

OUR VISION

Southern California's Catalyst for a Brighter Future

OUR CORE VALUES

Be Open | Lead by Example | Make an Impact | Be Courageous





with Title 2 Code of Federal Regulations Part 200, Chapter 5 of the Caltrans Local Assistance Procedures Manual.

Caltrans issued the final Incurred Cost Audit report on September 21, 2018 and the final Indirect Cost Allocation Audit Report on January 9, 2019 (attached). The reports cited:

- Improper procurement practices
- Deficient charging practices
- Contract management deficiencies
- Labor and fringe benefit deficiencies
- Billing and reporting deficiencies
- Possible conflict of interest with the sponsorship program

Caltrans issued the final CAPs for both audits on May 7, 2019. The corrective steps are very similar to the recommendations found in the final audit reports therefore SCAG began the process of implementing the required steps in late 2018.

At a meeting in Sacramento on June 21, 2019, SCAG updated representatives from Caltrans, FTA and FHWA on the steps taken so far to implement the Corrective Action Plans and on the associated organizational changes made recently, specifically the creation of the position of Chief Strategy Officer and the Office of Project Management. SCAG also proposed an alternative approach regarding the repayment of the costs disallowed in the two audits. Specifically, SCAG proposed substituting other allowable project costs, paid from local funds, sufficient to cover the amounts of the disallowances.

On July 12, 2019, SCAG transmitted its formal responses to the Corrective Actions for the final Incurred Cost Audit report and Indirect Cost Allocation Plan Audit report. Those documents are attached and include matrixes summarizing the progress achieved with regard to the CAPs:

- Incurred Cost Audit: 11 of 24 recommendations have been fully implemented and another 6 are between 70% and 95% implemented.
- Indirect Cost Allocation Plan Audit: 10 of 16 recommendations have been fully implemented and another 5 are between 70% and 95% implemented

Staff will continue to apprise the Regional Council regarding the progress made with respect to fulfilling the CAPs. The documents also contain an alternative approach regarding the repayment of the costs disallowed in the two audits. Specifically, SCAG has proposed substituting other allowable project costs, paid from local funds, sufficient to cover the amounts of the disallowances.





Accordingly, SCAG attached a Plan of Cost Substitution for each audit's disallowed costs as part of the agency's formal responses.

Finally, included in the formal response to the Incurred Cost Audit's Corrective Actions are the draft Event Sponsorship Policy and the draft Event Sponsorship Procedures. These were reviewed and approved by the Legislative/Communications and Membership Committee on July 16, 2019. They are scheduled to be reviewed by the Regional Council and finalized and implemented by September 30, 2019.

FISCAL IMPACT:

The final Corrective Action Plans issued by Caltrans seek \$4,401,565 in reimbursement from SCAG as follows: \$2,148,589 for disallowed costs in Incurred Cost Audit and \$2,252,976 for disallowed costs in the Indirect Cost Allocation Plan Audit. The final amount of repayment is subject to ongoing negotiations. Staff have formally proposed using other allowable project costs to substitute for the disallowed costs.

ATTACHMENT(S):

1. SCAG RESPONSE - Caltrans Final ICA 7 12 9
2. SCAG RESPONSE - Caltrans Final ICAP Audit Report Corrective Actions





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July 12, 2019

Ms. Coco Briseno
Deputy Director
Planning and Modal Programs
California Department of Transportation
P.O. Box 942873, MS-49
Sacramento, CA 94273-0001

Subject: SCAG Response to Caltrans Final Incurred Cost Audit Report
Corrective Actions

Dear Ms. Briseno:

Thank you for the opportunity to respond to the corrective action plan developed by Caltrans Division of Transportation Planning and the Division of Local Assistance in response to Caltrans' Incurred Cost Audit (ICA) of the Southern California Association of Governments (SCAG).

SCAG began the process of implementing many of the prescribed corrective actions prior to the issuance of the final audit report on September 21, 2018. As you will see from the attached matrix included as Attachment A, SCAG has fully implemented eleven of the twenty-four recommendations. Another six of the recommendations are between seventy and ninety-five percent implemented.

SCAG has been regularly updating its Audit Committee on the status of the ICA including at its June 27th meeting. A link to the meeting is included below for your reference:

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

Of significant concern is Caltrans' requirement that SCAG reimburse \$2,148,589. A reimbursement of this magnitude will have a devastating effect on SCAG, and by extension, Caltrans, FTA and FHWA. The financial impact of reimbursing Caltrans this amount will severely impact SCAG's ability to meet its program objectives. This effect is amplified by the cost recoveries Caltrans is seeking in both the Incurred Cost and the Indirect Cost Allocation Plan audits. Taken in total, the \$4,401,565 will negatively impact SCAG's ability to meet its planning objectives as defined by the Overall Work Plan (OWP).

Another concern is the fact that disallowing costs based on procedural deficiencies ignores the fact that SCAG, Caltrans, the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA) received significant value from those expenditures.

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- Energy & Environment
Linda Parks, Ventura County
- Transportation
Cheryl Viegas-Walker, El Centro

Attachment: SCAG RESPONSE - Caltrans Final ICA 7 12 9 (Caltrans Audits' Final Corrective Action Plans)



I would like to take this opportunity to thank you and your staff for your continuing efforts to clarify the requirements for both Architectural and Engineering and Non- Architectural and Engineering procurements. I am especially encouraged that the Division of Transportation Planning has reached out to various MPO staff well-versed in procurement requirements and challenges to assist in the development of guidance for Non-Architectural and Engineering procurements.

Caltrans Final Incurred Cost Audit Report Corrective Actions:

Finding# 1-Improper Procurement Practices

SCAG did not ensure that fair and open competition was performed or that proper procurement procedures were followed as required by federal and State regulations and the Caltrans agreement provisions. Additionally, SCAG's Procurement Policy and Procedures Manual that was in effect during the period of procurements tested did not fully comply with federal and State procurement regulations and Caltrans agreement provisions. Specifically, we found the following procurement deficiencies:

Corrective Actions Required:

SCAG must revise their Procurement Policies and Procedures manual and train staff accordingly, to ensure:

- Compliance with all applicable Caltrans requirements and federal and State procurement regulations. This includes revising Section 6.6.2 to describe the different competitive procurement processes available and when each should be used in compliance with federal and State regulations.
- Proper management decisions are made when preparing Request for Proposals that include tasks or sub-tasks that require an Architectural and Engineering (A&E) consultant to perform the work for compliance with federal and State procurement regulations.
- Management and staff receive proper training in procurement procedures.
- Staff that are involved in the consultant procurement process perform all required actions and comply with SCAG policies and procedures, Caltrans requirements, and federal and State procurement regulations.
- All documentation is maintained to support that proper procedures are followed in accordance with federal and State regulations.
- SCAG must also take the DLA A&E consultant procurement training either in person or online. A training webinar is tentatively scheduled to be posted in late May.
- If SCAG elects to take the online training, they must provide a list to the DLA Audits Coordinator for those staff who have completed the online training when available. The list shall contain staff names, phone numbers, e-mail addresses, date(s) of completion, and a verification signature by the staffs' supervisor.



SCAG's Corrective Action

SCAG is taking aggressive action to address deficiencies identified in the agency's procurement practices. The update of the SCAG's procurement manual is approximately 70% complete. During the intervening period, SCAG's Chief Financial Officer is periodically issuing interim written guidance and providing training to staff.

On February 11, 2019, general procurement training was provided to SCAG staff. Building on that foundation, SCAG management and staff are investigating best practices, incorporating those practices where appropriate and informing staff regularly. Periodic formalized training is also planned.

SCAG is awaiting formal training from Caltrans regarding the procurement of Architectural and Engineering (A&E) services and plans to have staff attend the on-site sessions in Highland and Los Angeles in August 2019. In the interim period, staff is closely adhering to the A&E guidance detailed in Chapter 10 of the Local Assistance Procedures Manual. Attendance at the training provided by Caltrans will be documented and maintained.

SCAG has also improved the internal controls over the procurement process. Specifically, the duties of the Contract Manager have been refined to provide increased oversight to ensure compliance with SCAG policies as well as state and federal requirements, including the preparation and receipt of independent cost estimates. The Contracts Manager has also adopted a tool to document his review and approval of procurement actions.

Finding # 2-Contract Management Deficiencies

SCAG's contract management system did not comply with federal and State regulations and Caltrans agreement provisions. We found that SCAG billed Caltrans for unsupported and unallowable consultant costs. Furthermore, we found that SCAG improperly managed consultant contracts, did not properly close-out consultant contracts, executed amendments on expired contracts, and could not support that all local match requirements were met.

Additionally, SCAG lacked contract management policies and procedures detailing proper processes to manage consultant and sub-recipient contracts and detailed procedures for reviewing and approving invoices. SCAG billed and was reimbursed \$590,537 in unsupported consultant costs, and \$361,426 on an expired consultant contract. These costs are disallowed.

Corrective Actions:

Please see the following regarding the \$951,963 in disallowed costs:

- 1) DLA will not require reimbursement of the \$361,426 disallowed for time extensions incurred after the initial expiration date for the Parsons Brinkerhoff, Inc. contract. Instead, DLA will address this finding with a programmatic solution that will require SCAG to update procurement and contract management procedures (see below), and to take training as prescribed in the corrective actions to Finding 1.



- 2) SCAG must reimburse Caltrans DLA \$338,986 in disallowed costs for the contract with AECOM Technical Services, Inc. The removal of sub-consultants and task 7 (Consensus) at contract execution, and then reinstating Task 7 at an increase of \$619,940 over the initial budget bear significant noncompliance to warrant reimbursement of the costs disallowed in the audit.
- 3) SCAG must reimburse Caltrans DOTP \$251,552 of disallowed costs to Caltrans. Caltrans DOTP will coordinate with SCAG on the method and schedule of repayment.

In addition, SCAG must also strengthen procurement and contract management procedures to address the below deficiencies.

- Ensure consultants provide adequate invoice detail to support costs claimed in compliance with consultant contract terms and 2 CFR Part 200 (which superseded 49 CFR Part 18, and 2 CFR Part 225). Additionally, ensure consultants are required to submit invoices that identify the work performed by task/activity and work element so proper documentation is maintained to support consultant billings. Ensure compliance with all federal and State regulations over the administration of consultant contracts.
- Establish procedures that identify and define each staff's roles and responsibilities regarding consultant invoice reviews.
- Revise the Grants Management Policies and Procedures and develop a Project Management Policies and Procedures Manual to ensure compliance with all applicable federal and State regulations and provide staff with detailed processes to follow.
- Ensure consultant contracts identify the funding sources and/or work elements of each task/activity when there are multiple funding sources and/or work elements.
- Ensure compliance with all federal and State regulations over the administration of consultant contracts and that the contracts contain language as required in the Caltrans' agreements.
- Ensure compliance with all federal and State regulations over the administration of sub-recipient (MOU) agreements, that agreements contain language as required in the Caltrans' agreements, and include specific contract end dates.
- Ensure staff are properly trained on the administration and management of consultant and sub-recipient pass through funds.

SCAG Corrective Actions

SCAG appreciates that DLA will address the issue of the \$361,426 disallowed costs for time extensions incurred after the initial expiration date for the Parsons Brinkerhoff, Inc. contract with a programmatic solution that will require SCAG to update procurement and contract management procedures. SCAG has made many improvements to its procurement procedures which are addressed under Finding 1 above.

SCAG has taken aggressive action to address the internal control and procedural deficiencies identified in this finding, including changes to the Procurement and Accounting Manuals, updates to the Grants Policies and Procedures Manual and engaging a Project Management



consultant to develop a Project Management Procedures Manual and provide training to staff. The specific seven actions are detailed in the attached matrix. Three of the seven actions are fully implemented.

In response to the reimbursement of \$338,986 to DLA for the removal of a task order which was later reinstated at a greater cost, SCAG would like to propose an alternative solution. SCAG proposes to substitute other allowable project costs in the amount of the audit finding of \$338,986. A schedule of the proposed substitutions is included with this letter. It is Attachment B titled: Incurred Cost Audit Plan of Cost Substitution. See row 6, columns N through P.

SCAG would also like to propose a similar solution to reimbursing DOTP \$251,552. SCAG proposes to substitute other allowable project costs in the amount of the audit finding of \$251,552 (\$103,971 + \$134,083 + \$13,498). See the schedule of the proposed substitutions included with this letter. . It is Attachment B titled: Incurred Cost Audit Plan of Cost Substitution. See cells W7, R8, and S9.

Finding# 3-Labor and Fringe Benefit Deficiencies

SCAG's labor and fringe benefit charging practices do not comply with Caltrans Agreement requirements, and federal and State regulations. SCAG does not have adequate policies and procedures related to labor charging practices, no documented procedures to account for time sheet corrections or retroactive pay and merit increases. In addition to billing ineligible costs, the inappropriate charging practices result in SCAG lacking accurate historical information related to actual costs for future budget purposes and overhead rate calculations. SCAG billed and was reimbursed a total of \$1,558,051 in ineligible labor charges to Overall Work Program (OWP) work element 120.

Corrective Actions:

SCAG must reimburse the \$1,558,051 of disallowed costs to Caltrans DOTP. Caltrans DOTP will coordinate with SCAG on the method and schedule of repayment. After the method of repayment is agreed upon, SCAG may make a request to DOTP to include the disallowed costs in the Fiscal Year (FY) 2014-15 indirect cost allocation pool (ICAP). If the request is approved, SCAG will then need to submit a revised FY 2016-17 ICAP to the Independent Office of Audits and Investigation that includes the adjustments to the carry forward year for review and approval prior to seeking reimbursement for any variance in the rate. Additionally, SCAG must:

- Ensure billings to Caltrans are based on actual labor costs incurred.
- Ensure the accounting methodology for retroactive pay and merit increases provides for an audit trail for changes made to the employee time sheets and costs are allocated to the appropriate pay periods.
- Develop and implement written policies and procedures for proper and consistent labor charging practices. Ensure procedures define appropriate charging practices for staff meetings and other non-project or work element activities.

- Update the Accounting Manual to include procedures for time sheet corrections and retroactive pay and merit increases and train staff accordingly.
- Develop separate fringe benefit allocation methodologies for regular staff, interns, and student assistants.

SCAG Corrective Action

SCAG has taken aggressive action to address the internal control and procedural deficiencies identified in this finding. The specific five actions are detailed in the attached matrix. Three of the five actions are fully implemented and the remaining two are ninety-five and seventy-five percent complete, respectively.

The audit characterized the \$1,558,051 as disallowed costs because they were deemed misclassified as direct costs as opposed to indirect costs. The Department's Corrective Action Plan requires that SCAG first reimburse Caltrans, then reclassify the costs as indirect, recalculate the indirect rate and rebill for the same costs. To do so will require that SCAG engage in the a time consuming and expensive bookkeeping process, which involves recalculating prior year indirect cost pools, re-opening closed accounting records, recasting successive years of indirect cost rates and associated billings. It also requires adjustments to previous years' cost accounting and financial reporting records. Executing the Department's corrective action will also require considerable effort on the part of Caltrans DOTP, Accounting and the Office of the Independent Auditor.

At the core, the costs are eligible and are reimbursable. Embarking on a laborious, time consuming and expensive bookkeeping process that will ultimately have minimal impact on the final outcome does not appear to be in SCAG's, Caltrans' or the public interest. In fact, the process provides no public benefit at substantial public cost.

The approach also has a deleterious effect on SCAG and by extension Caltrans, FTA and FHWA. The financial impact of reimbursing Caltrans \$1,588,051 will severely impact SCAG's ability to meet its objectives. This effect is amplified by the cost recoveries Caltrans is seeking in both the Incurred Cost and the Indirect Cost Allocation Plan audits. Taken in total, the \$4,401,565 will negatively impact SCAG's ability to meet its planning objectives as defined by the OWP.

SCAG proposes an alternative solution. SCAG proposes to substitute other allowable project costs in the amount of the audit finding of \$1,558,051. See the schedule of proposed substitutions included with this letter. It is Attachment B titled: Incurred Cost Audit Plan of Cost Substitution. . See row 10, columns Q through Z.

Finding #4-Billing and Reporting Deficiencies

SCAG did not submit required documentation with their requests for reimbursement to support costs billed and did not submit Quarterly Progress Reports in accordance with the DOTP Master Fund Transfer Agreement and the DLA Master Agreement.



Corrective Actions:

SCAG must revise their billing and reporting procedures to ensure the following:

- Billings to Caltrans include all applicable information and supporting documentation that trace to the billed costs and SCAG's financial management system. This includes ensuring the Consolidated Planning Grant IT Reports (or equivalent information) are provided and totaled by task associated to the respective work elements that are approved in the current OWP by the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA).
- Supporting schedules provided with the billings include appropriate descriptions detailing where costs are being charged.

SCAG Corrective Action:

In September 2018, SCAG implemented new procedures for ensuring the accuracy and completeness of billings to Caltrans. The process includes a billing checklist and ensuring that the Consolidated Planning Grant Reports are submitted. The billing checklist requires verification of completeness by both the Accounting Manager and the Caltrans staff member who takes physical receipt of the billing package.

SCAG also changed its practice of describing consultant costs billed to another funding source from an overly general category titled "Other Project". The change requires that the funding source be identified separately and that the Manager of Accounting reviews all invoices for compliance.

Finding #5-Possible Conflict of Interest with Sponsorship Program

SCAG's Sponsorship Program gives the appearance of a possible conflict of interest. SCAG created a Sponsorship Program to solicit donations from individuals, entities, and organizations with an interest in accessing participants of SCAG's General Assembly for networking, relationship building, business opportunities, and information sharing. We noted that SCAG solicits and receives donations from consultants for its Sponsorship Program with whom they also enter into consultant contracts to perform work. SCAG lacks a documented process over the Sponsorship Program to ensure a conflict of interest does not occur. Additionally, SCAG does not have documented policies and procedures over the administration and management of the Sponsorship Program.

Corrective Actions:

In order to avoid the appearance of a possible conflict of interest, SCAG must:

- Establish procedures over the Sponsorship Program to ensure there is no real or appearance of a conflict of interest with consultants that provided donations to the Sponsorship Program and are awarded consultant contracts.
- Develop policies and procedures over the administration and management of the Sponsorship Program to ensure compliance with all federal and State regulations.



- Create a Conflict of Interest Statement Certification form to document compliance with SCAG's own policies and procedures referenced above.

SCAG Corrective Action:

SCAG has drafted a policy and procedure for the Sponsorship program which addresses conflict of interest concerns and ensures compliance with all federal and state regulations. This effort is approximately seventy percent complete. This policy requires approval by SCAG's governing body and is expected to occur in August 2019. Upon finalization of the policy and procedures, SCAG will develop a Conflict of Interest Statement of Certification to document compliance with SCAG's policy and procedures. The current draft of both of these documents is included as Attachments C and D to this letter.

Should you have any questions about this letter or need further information, please contact Debbie Dillon, Chief Strategy Officer, at 213-236-1870 or dillon@scag.ca.gov. I look forward to your response.

Sincerely,



Kome Ajise
Executive Director
ajise@scag.ca.gov
213-236-1835

Attachments:

- A - Incurred Cost Audit Corrective Action Plan Matrix
- B – Incurred Cost Audit Plan of Cost Substitution
- C – SCAG Draft Sponsorship Policy
- D – SCAG Draft Sponsorship Procedure

Cc: Rodney Whitfield, Director of Financial Services, FHWA
Tashia Clemons, Director, Planning and Environment, FHWA
Veneshia Smith, Financial Manager, FHWA
John Bulinski, District Director, District 7, Caltrans
Steve Novotny, DLA Engineer, District 7, Caltrans
MarSue Morrill, Chief, External Audits-Local Governments, Independent Office of Audits and Investigations, Caltrans
Lisa Pacheco, Acting Division Chief, DOTP, Caltrans
Erin Thompson, Chief, Regional Planning, DOTP, Caltrans
Rihui Zhang, Chief, DLA, Caltrans
Kamal Sah, Chief, Office of Guidance and Oversight, DLA, Caltrans
Gilbert Petrissans, Chief, Division of Accounting, Caltrans
Darin Chidsey, Chief Operating Officer, SCAG
Debbie Dillon, Chief Strategy Officer, SCAG
Basil Panas, Chief Financial Officer, SCAG

Attachment: SCAG RESPONSE - Caltrans Final ICA 7 12 9 (Caltrans Audits' Final Corrective Action Plans)



**Incurring Cost Audit
Corrective Action Plan Matrix
Attachment A**



SCAG
INCURRED COST AUDIT
CORRECTIVE ACTION PLAN

FINDINGS	REQUIRED CORRECTIVE ACTION		STATUS	% COMPLETE	SCAG CORRECTIVE ACTION
FINDING #1- Improper Procurement Procedures	SCAG must revise their Procurement Policies and Procedures manual and train staff accordingly, to ensure:	A. Compliance with all applicable Caltrans requirements and federal and State and federal procurement regulations. This includes revising section 6.6.2 to describe the different competitive procurement processes available and when each should be used in compliance with federal and State regulations.	In Process	70%	In advance of finalizing an update to the procurement manual, the CFO has and will continue, to implement interim written guidance and provide training at various staff meetings on changes made since Audit Findings submitted to SCAG.
		B. Proper management decisions are made when preparing Requests for Proposal that include tasks or sub-tasks that require an Architectural & Engineering (A&E) consultant to perform the work for compliance with federal and State procurement regulations.	Completed and ongoing	100%	SCAG have taken the A&E training. Certificates of completion are attached. Information about A&E procurements will be included in the training SCAG will do for its staff regarding its various process changes.
		C. Management and staff receive proper training in procurement procedures.	In Process	75%	On 2/11/19, Julie Wiley, SANDAG Special Counsel and Manager of Contracts and Procurement, conducted training at SCAG. Since then SCAG has also been actively collecting best practices, updating practices and communicating regularly at All Staff meetings and management meetings. SCAG will continue to conduct period training to ensure education and updated information is shared on a continuous basis.
		D. Staff that are involved in the consultant procurement process perform all required actions and comply with SCAG policies and procedures, Caltrans requirements, and federal and State procurement regulations.	Completed and ongoing	100%	SCAG has restructured the work assignments in the Contracts Department to shift daily procurement activities away from the Manager to the Contract Administrators. This now enables the Manager of Contracts to spend more time spent on oversight to ensure compliance with SCAG policies and procedures, Caltrans requirements, and federal and State procurement guidelines.
		E. All documentation is maintained to support that proper procurement procedures are followed in accordance with federal and State regulations.	Completed and ongoing	100%	SCAG has restructured the work assignments in the Contracts Department to shift daily procurement activities away from the Manager and to the Contract Administrators. This now enables the Manager of Contracts to spend more time on oversight to ensure that all documentation is maintained to support that proper procurement procedures are followed in accordance with state and federal regulations. Particular attention is being paid to documenting the preparation and receipt of the independent cost estimates. The Manager of Contracts now uses a more detailed sign-off sheet to review and approve procurement actions.
		F. SCAG must also take the DLA A&E consultant procurement training either in person or online. A training webinar is tentatively scheduled to be posted in late May. If SCAG elects to take the online training, they must provide a list to the DLA Audits Coordinator for those staff who have completed the online training when available. The list shall contain staff names, phone numbers, e-mail addresses, date(s) of completion, and a verification by the staff's supervisor.	In Process	25%	SCAG have taken the A&E training. Certificates of completion are attached. Information about A&E procurements will be included in the training SCAG will do for its staff regarding its various process changes.

SCAG
INCURRED COST AUDIT
CORRECTIVE ACTION PLAN

FINDINGS	REQUIRED CORRECTIVE ACTION		STATUS	% COMPLETE	SCAG CORRECTIVE ACTION
FINDING #2 – Contract Management Deficiencies		SCAG must reimburse Caltrans DLA \$338,986 in disallowed costs for the contract with AECOM Technical Services, Inc. The removal of sub-consultants and Task 7 (Consensus) at contract execution, and then reinstating Task 7 at an increase of \$619,940 over the initial budget, bear significant noncompliance to warrant reimbursement of the costs disallowed in the audit.	TBD		SCAG proposes to substitute other allowable project costs in the amount of the audit finding of \$338,986.
		SCAG must reimburse Caltrans DOTP \$251,552 of disallowed costs to Caltrans. Caltrans DOTP will coordinate with SCAG on the method and schedule of repayment.	TBD		SCAG proposes to substitute other allowable project costs in the amount of the audit finding of \$251,552
SCAG must strengthen procurement and contract management procedures to address the following deficiencies:		A. Ensure consultants provide adequate invoice detail to support costs claimed in compliance with consultant contract terms and 2 CFR Part 200 (which superseded 49 CFR Part 18, and 2 CFR Part 225). Additionally, <u>ensure consultants are required to submit invoices that identify the work performed by task/activity and work element</u> so proper documentation is maintained to support consultant billings. Ensure compliance with all federal and State regulations over the administration of consultant contracts.	Completed and ongoing	100%	SCAG has communicated the requirements to staff and consultants and increased monitoring of non-compliant consultants to ensure the contract provision which requires all invoices to be accompanied by a progress report that states the percentage of work completed. SCAG has amended its contract template, and drafted changes to its Procurement Policies and Procedures Manual and Accounting Manual to require that consultant invoices show the billings applicable to each project/cost element. Invoices that do not comply are rejected. SCAG will provide training to staff by October 31, 2019.
		B. Establish procedures that identify and define each staff's roles and responsibilities regarding consultant invoice reviews.	In Process	25%	SCAG engaged a project management consultant to: (a) Assist in process improvement including role and responsibilities definition; (b) Develop a procedures manual; and (c) Provide training. They completed their Scope of Work and SCAG is in the process of establishing a PMO office that reports directly to the Executive Office. SCAG is in the process of hiring staff for the PMO who will be responsible for establishing, and monitoring best practices agency wide. Goal is to have roles/responsibilities, processes, tools and procedures completed and fully implemented by June 30, 2020.
		C. Revise the Grants Management Policies and Procedures and develop a Project Management Policies and Procedures Manual to ensure compliance with all applicable federal and State regulations and provide staff with detailed processes to follow.	In Process	25%	The updates to the Grants Policy and Procedures Manual have been made in draft form. They will be reviewed and finalized. The status of the PMO is described above.
		D. Ensure consultant contracts identify the funding sources and/or work elements of each task/activity when there are multiple funding sources and/or work elements.	Completed and ongoing	100%	The Funding Summary (formerly Contract Exhibit "D") shows the funding sources and/or work elements of each task/activity when there are multiple funding sources and/or work elements.
		E. Ensure compliance with all federal and State regulations over the administration of consultant contracts and that the contracts contain language as required in the Caltrans' agreements.	In process	95%	SCAG implemented the contract closeout procedures required by the Local Assistance Procedures Manual Chapter 10.8 and PCC section 10369 in June 2018 and has updated its Procurement Policies and Procedures Manual accordingly. SCAG ceased the practice of retroactive contract amendments in December 2017. Deliverables have been stored in the electronic folder for the applicable contract beginning with FY17 deliverables (received June - August 2018). SCAG will also change its method for the annual funding of multi-year contracts to help reduce the number of contract amendments. Each year's funding shall be done by way of a purchase order and not a contract amendment.

SCAG
INCURRED COST AUDIT
CORRECTIVE ACTION PLAN

FINDINGS	REQUIRED CORRECTIVE ACTION		STATUS	% COMPLETE	SCAG CORRECTIVE ACTION
		F. Ensure compliance with all federal and State regulations over the administration of sub-recipient (MOU) agreements, that agreements contain language as required in the Caltrans' agreements and include specific contract end dates.	Completed and ongoing	100%	SCAG has updated its MOU template to: (1) Require project related travel and subsistence expenses of contractors consistent with California Department of Personnel Administration rates; (2) Reference 48 CFR Ch. 1 Part 31 when discussing sub-contractor and third party compliance for applicable cost principles. SCAG has updated its MOU template to require that the type of contract be specified as required by the Caltrans Local Assistance Procedures Manual in Chapter 10, and to include specific contract end dates. The Grants Policies and Procedures Manual has been revised to include the revised MOU language on page 26 and the revised MOU template as Exhibit 10. The revised MOU language was implemented in December 2018 and has been used in the most recent MOUs. Finance will provide training to project managers by October 31, 2019.
		G. Ensure staff are properly trained on the administration and management of consultant and sub-recipient pass through funds.	In Process	80%	Budget & Grants staff is knowledgeable of federal regulations for administering pass-through funds and financial monitoring of sub-recipients. The policies and procedures for subrecipient monitoring are documented in the 2019 Grants Policies & Procedures Manual beginning on page 28. Finance will conduct training for project managers responsible for the administration and management of consultant and sub-recipient pass through funds by October 31, 2019.
FINDING #3 - Labor and Fringe Benefit Deficiencies	SCAG must:	Reimburse the \$1,558,051 of disallowed costs to Caltrans DOTP.	TBD		SCAG requests that Caltrans DOTP address this finding with a programmatic solution recognizing that SCAG has made the necessary internal control and procedural changes to address the finding and prevent a future recurrence.
	Additionally SCAG must:	A. Ensure billings to Caltrans are based on actual labor costs incurred.	Completed and ongoing	100%	SCAG is actively monitoring labor charges to ensure that staff charge time to the correct work element or non-project activities. New policies and procedures for labor charging practices including monitoring available labor hours for direct and indirect projects, and amending the labor budget as required, will be developed and included in the Finance manuals and in the new project management manual. Finance will provide training to all staff by October 31, 2019.
		B. Ensure the accounting methodology for retroactive pay and merit increases provides for an audit trail for changes made to the employee time sheets and costs are allocated to the appropriate pay periods.	Completed and ongoing	100%	SCAG's implemented a new procedure for retroactive pay in October 2018 whereby the retroactive amount is applied to the periods covered by the increase. Thus, the projects & non-work time categories that were charged by the employee during the period covered by the retroactive pay share the cost of the increase. The support documents for these adjustments is retained for audit purposes.

SCAG
INCURRED COST AUDIT
CORRECTIVE ACTION PLAN

FINDINGS	REQUIRED CORRECTIVE ACTION	STATUS	% COMPLETE	SCAG CORRECTIVE ACTION	
		C. Develop and implement written policies and procedures for proper and consistent labor charging practices. Ensure procedures define appropriate charging practices for staff meetings and other non-project or work element activities.	In Process	75%	Starting with FY18, no time is charged to Work Element 120 except for Budget and Grants staff. Staff meetings and other non-project or work element activities are charged to the Indirect Cost fund in a new indirect cost activity (810-0120.06). New policies and procedures for labor charging practices including monitoring available labor hours for direct and indirect projects, and amending the labor budget as required, will be developed and included in the Accounting Manual and in the new project management manual. Finance will provide training to all staff by October 31, 2019.
		D. Update the Accounting Manual to include procedures for time sheet corrections and retroactive pay and merit increases and train staff accordingly.	In Process	95%	New procedures were implemented in October 2018 where retroactive pay increases are coded to the proj/task combinations where the employee charged time after the effective date of the pay rate increase. Changes to the Accounting Manual have been drafted to reflect the new procedures and training will be provided by October 31, 2019.
		E. Develop separate fringe benefit allocation methodologies for regular staff, and interns and student assistants.	Completed	100%	The new fringe benefit allocation methodology for non-regular staff was implemented in the accounting system in July 2018 and in the budget effective in FY20. Both were reviewed and approved by the CFO. Budget & Grants will develop a written policy and procedure and include in the 2019 Budget & Grants Policies & Procedures Manual by October 31, 2019.
FINDING #4 – Billing and Reporting Deficiencies	SCAG must revise their billing and reporting procedures to ensure the following:	A. Billings to Caltrans include all applicable information and supporting documentation that trace to the billed costs and SCAG's financial management system. This includes ensuring the Consolidated Planning Grant IT Reports (or equivalent information) are provided and totaled by task associated to the respective work elements that are approved in the current OWP by the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA).	Completed and ongoing	100%	SCAG has developed a billing document checklist for billings to Caltrans. It includes the CPG IT report. The checklist requires the signature of the Accounting Manager and the Caltrans staff member who takes physical receipt of the billing package. This was put into effect with the September 2018 billings.
		B. Supporting schedules provided with the billings include appropriate descriptions detailing where costs are being charged.	Completed and ongoing	100%	SCAG no longer uses the term "Other Project" to describe consultant costs billed to another funding source. The funding source is identified separately. The Manager of Accounting reviews all invoices to Caltrans for compliance with this requirement.
FINDING #5 – Possible Conflict of Interest with Sponsorship Program	In order to avoid the appearance of a possible conflict of interest, SCAG must:	A. Establish procedures over the Sponsorship Program to ensure there is no real or appearance of a conflict of interest with consultants that provided donations to the Sponsorship Program and are awarded consultant contracts.	In Process	95%	Staff has drafted a policy and procedure for the Sponsorship program which addresses the conflict of interest concerns. The Policy requires board approval which is anticipated to occur in August.
		B. Develop policies and procedures over the administration and management of the Sponsorship Program to ensure compliance with all federal and State regulations.	In Process	95%	Staff has drafted a policy and procedure for the Sponsorship program which ensures compliance with all federal and State regulations. The Policy is subject to board approval which is expected in August.
		C. Create a Conflict of Interest Statement of Certification form to document compliance with SCAG's own policies and procedures referenced above.	In Process	0%	SCAG will draft a Certification form after approval for the Policy by the board.

Incurred Cost Audit
Plan of Cost Substitution
Attachment B



**SCAG
Incurred Cost Audit
Plan of Cost Substitution**

1	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z						
	DISALLOWED COSTS											SUBSTITUTE COSTS																				
2	Federal/State Project Number	Funded by	Caltrans Agreement No.	Project Name/Description	Work Elements	Consultants/ SCAG Staff	Consultant Contract Amount	Period Costs Incurred	Finding 2 Contract Management	Finding 3 Labor	Total Disallowed Costs Paid by Caltrans	Total of Substitute Costs	Labor in 265-2125.01			Labor in 265-2125.02			Consultant in 130-0162.10			Labor in 266-0715.01			Consultant in 015-0159.02			Labor in 055-1531.01		Labor & consultant in 225-2659.01		Consultant in 266-3920.01
3													Express Travel Choices			East-West Freight Corridor I-15			TDA - funded Projects	Mileage-based User Fee - Ground			So. Cal. Econ. Strategy	Comp Planning for Open Space Strategic Plan	East-West Freight Corridor							
4	FY15	FY16	FY17	FY16	FY17	FY18	FY17	FY16	FY17	FY18	FY15		FY16	FY17	FY18	FY15	FY16	FY15	FY16													
5	VPPP-6049(010) VPPP-6049(015)	DOLA	53-6049R	Value Pricing Pilot Project	265	Parsons Brinckerhoff, Inc.	\$ 2,058,303	3/29/13 - 3/30/18	\$ 361,426		\$ 361,426	\$ -																				
6	VPPP-6049(010) VPPP-6049(015)	DOLA	53-6049R	Value Pricing Pilot Project	265	AECOM Technical Services, Inc.	\$ 4,071,936	4/25/13 - 3/30/18	\$ 338,986		\$ 338,986	\$ 338,986	\$ 117,805	\$ 87,545	\$ 133,636																	
7	Overall Work Program FY14/15	DOTP	74A0822	Federal Overall Work Program	015	AECOM Technical Services, Inc.	\$ 4,071,936	4/25/13 - 3/30/18	\$ 103,971		\$ 103,971	\$ 103,971									\$ 103,971											
8	Overall Work Program FY14/15	DOTP	74A0822	Federal Overall Work Program	010, 015, 130	System Metrics Group, Inc.	\$ 2,462,322	4/23/13 - 3/30/18	\$ 134,083		\$ 134,083	\$ 134,083				\$ 134,083																
9	Overall Work Program FY14/15	DOTP	74A0822	Federal Overall Work Program	130	Cambridge Systematics, Inc.	\$ 420,404	4/30/14 - 3/30/18	\$ 13,498		\$ 13,498	\$ 13,498						\$ 13,498														
10	Overall Work Program FY14/15	DOTP	74A0822	Federal Overall Work Program	120	Accountants/Contract Administrators & Legal Staff	N/A	7/1/14 - 6/30/15		\$ 1,558,051	\$ 1,558,051	\$ 1,558,051				\$ 51,971	\$ 107,304	\$ 1,223	\$ 141,070	\$ 34,682	\$ 450,000	\$ 118,499	\$ 146,125	\$ 307,743	\$ 199,435							
11							\$ 9,012,965		\$ 951,964	\$ 1,558,051	\$ 2,510,015	\$ 2,148,589	\$ 117,805	\$ 87,545	\$ 133,636	\$ 51,971	\$ 241,387	\$ 14,721	\$ 141,070	\$ 34,682	\$ 450,000	\$ 222,470	\$ 146,125	\$ 307,743	\$ 199,435							
12																																

Incurring Cost Audit
SCAG Draft Sponsorship Policy
Attachment C



Purpose

Each year, the Southern California Association of Governments (SCAG) administers events to foster innovation in transportation and regional planning, and the exchange of information and ideas in the field. As the nation's largest metropolitan planning organization (MPO), SCAG's leadership is important in not only providing a forum for its members to engage with the public and private sectors, but also to provide opportunities for interested parties to develop an affiliation with, and support, the agency's long-range transportation planning efforts. The relationships SCAG maintains with external organization are vital in furthering innovation in the field resulting in potential solutions to various regional issues of concern.

For these reasons, and in an effort to optimize the use of public funds and resources for SCAG events to the public's benefit, SCAG provides opportunities for interested parties to sponsor such events.

The primary goals of the Event Sponsorship Policy ("Policy") and attached Event Sponsorship Procedures ("Procedures") are as follows:

- Ensure that SCAG's sponsorship program for events administered by SCAG is carried out in accordance with this Policy and Procedures.
- Ensure sponsorship offers are solicited and accepted in compliance with applicable conflict of interest requirements under federal and state laws, regulations, and guidelines, as well as SCAG policies (i.e., Personnel Rules, Ethics Policy, Regional Council Policy Manual, etc.).
- Ensure sponsorships do not compromise the larger goals and objectives of SCAG in its primary role as the region's MPO.

Definitions

Consultant Database: Businesses, individuals or other entities listed in SCAG's vendor/consultant database known as PlanetBids.com (<https://www.planetbids.com/hub/hub.cfm>).

SCAG Representatives: SCAG General Assembly delegates and alternates, Regional Council members, Policy Committee members, Host Committee members, SCAG executive management and staff.

Sponsorship: A mutually beneficial business arrangement between SCAG and an external organization, business, individual or other interested party ("Sponsor") wherein the Sponsor contributes any funds or in-kind products and services, or any combination thereof, to an event administered by SCAG in return for any combination of services, recognition, acknowledgement, and/or other promotional consideration.

Policy Guidelines

Any funds, in-kind products and services, or any combination thereof received from a Sponsor in support of events administered by SCAG shall go towards the administration of the event for which sponsorship is provided. Recognizing the importance of SCAG relationships with external organizations and the opportunities provided with a SCAG sponsorship, SCAG may allow sponsorships from SCAG consultants under certain parameters. Acknowledging the various conflict of interest requirements, funds received by SCAG from a Sponsor that does or may do business with SCAG (i.e., contacts listed in the Consultant Database) shall not be used by SCAG to pay for any expenses which confer or may be perceived to confer a personal benefit to a public official, such as meals, transportation, lodging for the public official. For purposes of this Policy, a public official includes any person who is required to file a Form 700, California Fair Political Practices (FPPC) Statement of Economic Interests, pursuant to SCAG's Conflict of Interest Code. In addition, funds received by SCAG from a Sponsor that does or may do business with SCAG (i.e., contacts listed in the Consultant Database) shall be segregated from other Sponsorship funds and appropriately accounted for by SCAG's Finance Department in accordance with this Policy and Procedures.

Conflict of Interest

SCAG employees must exercise the highest level of integrity, ethics, and objectivity in their actions and relationships and shall, to the maximum extent possible, endeavor to eliminate any actual or appearance of impropriety or conflict of interest and ensure compliance with applicable conflict of interest laws and regulations. SCAG employees have the duty to act in the best interest of SCAG at all times, and in accordance with Section 3 of SCAG's Ethics Policy, "all employees shall receive a copy of this [Ethics] Policy and shall acknowledge receipt of this [Ethics] Policy in writing as part of new employee orientation and annually." SCAG's Personnel Rules, Section 13.4, also prohibits SCAG employees from accepting any favors, gifts or gratuities from individuals or corporations that do or may do business with SCAG.

Moreover, SCAG employees serving on a Proposal Review Committee (PRC) in relation to a request for proposal (RFP) for consultant services are also required to complete a Non-Disclosure/Conflict of Interest Statement to make known any such personal conflicts of interest that may exist. If none exists, the employee shall acknowledge that no member of the employee's family has any direct or personal interest which conflicts substantially, or appears to conflict substantially, with the employee's duties as a member of the PRC.

To further avoid an actual or appearance of a conflict of interest, and to ensure compliance with applicable conflict of interest laws and regulations, SCAG will require the following:

- SCAG Representatives involved in the SCAG's sponsorship program shall be required to complete and submit a Conflict of Interest Statement Certification, pertaining specifically to the solicitation of sponsorships in support of events administered by SCAG, and to document compliance with SCAG's policies and procedures.
- SCAG staff from the Media & Public Affairs Department shall check sponsorship solicitation mailing lists to ensure that such lists do not contain contacts from SCAG's Consultant Database. SCAG Representatives shall not initiate any communications or transmit materials

to contacts listed in such Consultant Database regarding Sponsorship opportunities. However, SCAG Representatives may respond to inquiries for more information regarding sponsorship opportunities from contacts listed in the Consultant Database.

- In the event that SCAG staff receives a Sponsorship offer from a contact listed in the Consultant Database, SCAG staff may accept such offer in accordance with the following procedures:
 - Accounting staff shall immediately segregate any funds received from such sources, apart from all other sources of funding for SCAG events.
 - Funds received from such sources shall not be utilized to pay for any expenses for SCAG events which may confer or be perceived to confer a personal benefit including but not limited to travel, meals or lodging expenses.
- In the event a situation arises where a staff member of the Media & Public Affairs Department serves on a PRC in relation to an RFP for consultant services and the applicant/proposer was a Sponsor for an event administered by SCAG, and the SCAG staff member had a role in soliciting, accepting, or approving the Sponsorship from the applicant/proposer in question, the SCAG staff member shall recuse himself or herself from the PRC, and not participate in the PRC process.

Invoicing

Benefits of sponsorship, promotion, and/or services to be provided by SCAG, as negotiated with SCAG staff for a specified event, will be outlined in the invoice provided to Sponsors. Invoices to Sponsors that are not in SCAG’s Consultant Database shall include the following disclaimer:

Note – Sponsorship of an event administered by SCAG does not:

- *Imply endorsement from SCAG of any past, current, or future business, product, or service that was, is, or may be provided by the organization named above that has committed to sponsorship of the event named herein.*
- *Imply any future submission or application by the organization named above to a SCAG request for proposal (RFP) for consultant services, or any other form of contract services, will be successful due to prior financial sponsorship of an event administered by SCAG.*
- *Relinquish control from SCAG, to the organization named above, of any program, service delivery, facility management, or event planning considerations related to the facilitation of an event administered by SCAG.*

Invoices to Sponsors that are listed in SCAG’s Consultant Database shall additionally include the following disclaimer:

Note – Sponsorship funds provided by your organization will not be utilized to cover the costs of meals, lodging, travel or any other expenses which may or be perceived to confer a personal benefit to any public official. In addition, sponsorship of an event administered by SCAG does not:

- *Imply endorsement by SCAG of any past, current, or future business, product, or service that was, is, or may be provided by the organization named above that has committed to sponsorship of the event named herein.*



- *Imply any future submission or application by the organization named above to a SCAG request for proposal (RFP) for consultant services, or any other form of contract services, will be successful due to prior sponsorship of an event administered by SCAG.*
- *Relinquish control by SCAG, to the organization named above, of any program, service delivery, facility management, or event planning considerations related to the facilitation of an event administered by SCAG.*

Sponsorship Selection

SCAG will consider sponsorship offers from interested external organizations without any guarantee of acceptance. SCAG exercises sole discretion over decisions to accept Sponsorships in accordance with this Policy.



Incurring Cost Audit
SCAG Draft Sponsorship Procedure
Attachment D



Conflict of Interest Form

- SCAG Representatives as defined under the Event Sponsorship Policy, (“Policy”) shall be required to complete and submit a Conflict of Interest Statement Certification pertaining to SCAG’s sponsorship program in support of events administered by SCAG, to document compliance with these Event Sponsorship Procedures (“Procedures”) and SCAG’s other applicable policies and procedures.

Preparation and Transmittal of Sponsorship Materials

SCAG Sponsorship staff as assigned by the Director of Policy and Public Affairs, or the Manager of Media and Public Affairs shall:

- Annually update brochures (which outline sponsorship levels and corresponding benefits for each respective level) and other related materials for each event that SCAG considers Sponsorships, consistent with the Policy, taking into consideration feedback received from the prior year’s Post-Event Survey, as well as current trends, targeted audience, sponsorship levels and benefit levels.
- Ensure such brochures and other materials regarding Sponsorships are not transmitted to contacts in SCAG’s Consultant Database.
- Adapt for publication on SCAG’s website (on an event-specific page), Sponsorship brochures and related materials for each event, and include on such page information regarding the Policy.
- Update language for the invoice template for Sponsorships to reflect any necessary changes required by the Policy (e.g. disclaimers).
- Ensure language for the email templates which are utilized to transmit information regarding Sponsorship opportunities for SCAG events comply with the Policy.

SCAG Accounting staff shall:

- Review invoices received by Sponsors to ensure compliance with the Policy including containing language required by the Policy (e.g., disclaimers).
- For each SCAG event, segregate in a separate account any funds received by Sponsors listed in SCAG’s Consultant Database known as PlanetBids.com (<https://www.planetbids.com/hub/hub.cfm>), from all other sources of funding, and ensure expenditures of funds received from such sources comply with the requirements of the Policy.

Host Committee (If Applicable)

- For the SCAG annual Regional Conference & General Assembly, a Host Committee comprised of Regional Council members, plays an integral role in ensuring that sponsorship goals are met.
- The Host Committee will review the list of prospective sponsors developed by staff, as well as identify and/or recruit new potential sponsors. Such list of prospective sponsors shall not include contacts from SCAG’s Consultant Database.



- SCAG staff will assist Host Committee members with filing of Fair Political Practices Commission (FPPC) Form 803 for sponsorships over \$5,000 (if necessary).

Solicitation

- With supporting materials completed, the process for identifying potential sponsors can commence. Potential sponsors may include:
 - Sponsors from prior years' events.
 - New contacts collected from conferences, expos, outside meetings, or other events.
 - New or existing contacts identified by Host Committee members (if applicable).
- SCAG Representatives as defined under the Policy, shall not initiate any sponsorship-related communications with contacts in SCAG's Consultant Database, but may respond to general inquiries for more information regarding sponsorship opportunities received from such contacts.
- Sponsorship staff will prepare and send out communications for Sponsorship solicitation:
 - Emails, with a Sponsorship brochure attached, are sent to sponsors from prior years' events and new potential sponsors identified by sponsorship staff and/or Host Committee members (if applicable).
- Sponsorship staff shall request approval from the Director of Policy & Public Affairs in the event a potential sponsor which is listed on SCAG's Consultant Database, seeks to develop a customized sponsor package.
- The Director of Policy and Public Affairs shall approve customized sponsor packages and any other sponsorships involving contacts listed in SCAG's Consultant Database.

Fulfillment

- Once an external individual or organization has committed to sponsorship, sponsorship staff will facilitate the following to ensure benefits of sponsorship are delivered:
 - Send a confirmation email to the Sponsor that includes the following information:
 - Sponsorship Level
 - Sponsorship Level-Specific Benefits
 - Logo/Advertising Graphics Requirements (If Applicable)
 - Deadlines
 - An attached invoice to sponsor that includes the following information:
 - Sponsorship level
 - Sponsorship level-specific benefits
 - Coordinate sponsor's representative(s) on sponsorship benefits:
 - Exhibition Space (and Related Logistical Needs)
 - Logo/Advertising
 - Product Placement
 - Conference Registrations
 - VIP Reception Registrations
 - Coordinate with SCAG's Finance/Accounting department to ensure receipt of Sponsorship funds and reconciliation of outstanding invoices.

Day(s) of Event

- On the day (or for the duration) of a SCAG event, SCAG Sponsorship staff shall ensure all event-specific sponsorship benefits are delivered satisfactorily to the sponsor (in accordance with their respective sponsorship level), including:
 - Assigning exhibition space to sponsors. This includes ensuring coordination with event space staff of specific logistical requirements for exhibition space (e.g., power, internet, etc.).
 - Assisting with sponsor networking.

Post-Event

- After the event, Sponsorship staff will commit to archiving relevant information pertaining to the agency's Sponsorship solicitation efforts.
 - Administrative tasks include:
 - Updating and finalizing the matrix of sponsors.
 - Archiving templates for invoices and emails, sponsorship solicitation materials, notes from Host Committee meetings (if applicable), and key correspondence.
 - Final reconciliation with the Accounting department.
 - Sponsor follow-up actions include:
 - Compose and send thank you letters to all sponsors.
 - Create and send a post-event satisfaction survey to all sponsors.
 - Address concerns raised or feedback received by sponsors (whether received through direct communication with the sponsor or through the post-event satisfaction survey).





July 11, 2019

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REGIONAL COUNCIL OFFICERS

- President
Bill Jahn, Big Bear Lake
- First Vice President
Randon Lane, Murrieta
- Second Vice President
Rex Richardson, Long Beach
- Immediate Past President
Alan D. Wapner, San Bernardino County Transportation Authority

COMMITTEE CHAIRS

- Executive/Administration
Bill Jahn, Big Bear Lake
- Community, Economic & Human Development
Peggy Huang, Transportation Corridor Agencies
- Energy & Environment
Linda Parks, Ventura County
- Transportation
Cheryl Viegas-Walker, El Centro

Subject: SCAG Response to Caltrans Final ICAP Audit Report Corrective Actions

Dear Ms. Briseno:

Thank you for the opportunity to respond to the corrective action plan developed by Caltrans Division of Transportation Planning and the Division of Local Assistance in response to Caltrans' Indirect Cost Allocation Plan Audit of SCAG.

In general, the Southern California Association of Governments (SCAG) is in agreement with corrective actions identified. In fact, SCAG began the process of implementing many of the prescribed corrective actions well in advance of the issuance of the final audit report on January 9, 2019. As you will see from the attached matrix, SCAG has fully implemented ten of the sixteen recommendations. Another five of the recommendations are between seventy and ninety-five percent implemented. See Attachment A: Indirect Cost Allocation Plan Audit Action Plan Matrix.

SCAG has been regularly updating its Audit Committee on the status of the ICA including at its June 27th meeting. A link to the meeting is included below for your reference:
<http://www.scag.ca.gov/committees/Pages/COMMDL.aspx>

Of significant concern is Caltrans' requirement that SCAG reimbursement \$2,252,976. Reimbursement of this magnitude will have a devastating effect on SCAG, and by extension, Caltrans, FTA and FHWA. The financial impact of reimbursing Caltrans this amount will severely impact SCAG's ability to meet its program objectives. This effect is amplified by the cost recoveries Caltrans is seeking in both the Incurred Cost and the Indirect Cost Allocation Plan audits. Taken in total, the \$4,401,565 will negatively impact SCAG's ability to meet its planning objectives as defined by the OWP.

Another concern is the fact that disallowing costs based on procedural deficiencies ignores that the MPO, the state and the federal funding agencies got value from the investments made.

I would like to take this opportunity to thank you and your staff for your continuing efforts to clarify the requirements for both



Architectural and Engineering and Non- Architectural and Engineering procurements. I am especially encouraged that the Division of Transportation Planning has reached out to various MPO staff well-versed in procurement requirements and challenges to assist in the development of guidance for Non-Architectural and Engineering procurements.

Caltrans Final Indirect Cost Allocation Plan Audit Report Corrective Actions:

Finding# 1-Improper Procurement Practices

SCAG's procurement practices for ten IT consultant procurements tested did not support that fair and open competition was performed, or that proper procurement procedures were followed as required by Caltrans agreement provisions, federal and State procurement requirements, and SCAG's policies and procedures. The noncompliant procurement practices resulted in unallowable costs billed direct to Caltrans in the amount of \$627,179 and unallowable indirect costs included in the FY 2014-15 actual indirect cost pool in the amount of \$164,628.

Corrective Actions:

SCAG must revise their Procurement Policies and Procedures manual and train staff accordingly, to:

- Ensure costs that are not in compliance with the federal and State procurement regulations are excluded from the indirect cost pool.
- Revise SCAG's Procurement Policy and Procedures Manual to ensure they are current and comply with all applicable federal and State regulations.
- Ensure management and staff receive proper training in procurement procedures.
- Ensure all documentation is maintained to support that proper procurement procedures are followed in accordance with federal and State regulations.
- Take Caltrans, Division of Local Assistance (DLA), Audits and Engineering (A&E) consultant procurement training either in person or online at <http://www.dot.ca.gov/hq/LocalPrograms/training.html>

In addition, SCAG must:

- Reimburse Caltrans \$627,179 for the disallowed IT consultant contract costs identified in the audit report. Caltrans DOTP will coordinate with SCAG on the method and schedule of repayment.
- Adjust the FY 2014-15 actual indirect cost pool by \$164,628 for the unallowable IT consultant costs identified in the audit report.
- Determine the amount incurred and included in the FY 2016-17 indirect cost pool for the seven unallowable IT consultant contracts and adjust the FY 2016-17 indirect cost pool accordingly.



SCAG's Corrective Action

SCAG is taking aggressive action to address deficiencies identified in agency procurement practices. The update of the agency procurement manual is approximately 70% complete. During the intervening period, SCAG's Chief Financial Officer is issuing interim written guidance and providing training to staff.

On February 11, 2019, general procurement training was provided to SCAG staff. Building on that foundation, SCAG management and staff are investigating best practices, incorporating those practices where appropriate and informing staff regularly. Periodic formalized training is also planned.

SCAG has registered for the formal training from Caltrans scheduled for August 2019 regarding procurements of Architectural and Engineering (A&E) services. In the interim period, staff is closely adhering to the A&E guidance detailed in Chapter 10 of the Local Assistance Procedures Manual. Attendance at training provided by Caltrans will be documented and maintained.

SCAG has also improved the internal controls over the procurement process. Specifically, the duties of the Contract Manager have been refined to provide increased oversight to ensure compliance with SCAG policies and state and federal requirements, including the preparation and receipt of independent cost estimates. The Contracts Manager has also adopted a tool to document his review and approval of procurement actions.

In response to the reimbursement of \$627,179 for the disallowed IT consultant contracts, SCAG would like to propose an alternative solution. SCAG proposes to substitute other allowable project costs in the amount of the audit finding of \$627,179. A schedule of proposed substitutions is included with this letter. It is Attachment B titled: Plan of Cost Substitution for Disallowed Consultant Costs. See columns O through V.

In November 2018, SCAG made the indirect cost pool adjustments required in this finding.

Finding # 2-Deficient Charging Practices

SCAG's charging practices related to billing indirect and direct costs to Caltrans were deficient and resulted in billings that were not in compliance with Caltrans agreement provisions and federal and State regulations. Specifically, SCAG billed an indirect rate for FY 2016-17 that included unallowable direct and indirect costs and billed indirect and ineligible direct labor costs to a direct project work element. The charging practices implemented by SCAG did not ensure the proper segregation of direct, indirect, and unallowable costs in the accounting records and costs included on the billings to Caltrans.

Finding 2A Unallowable Indirect Costs Included in the. FY 2016-17 ICAP

In testing 41 transactions within 15 indirect cost accounts for the FY 2014-15



carry forward, Caltrans found that SCAG included direct, unallowable, and unsupported costs in the indirect cost pool. Unallowable costs totaling \$196,617 were due to weak internal controls, improper charging practices, and non-compliant vendor procurements. Unallowable mileage costs totaling \$11,986 were also included in the indirect cost pool of SCAG's FY 16-17 ICAP.

Corrective Actions:

- Adjust the FY 2014-15 actual indirect cost pool by \$196,617 for the unallowable costs identified in the audit report.
- Remove \$11,986 from the indirect cost pool for FY 2016-17 for the unallowable travel costs.
- Review all indirect accounts to ensure costs are in compliance with federal and State regulations; are properly segregated between direct, indirect and unallowable; and are supported by original source documentation.
- Adjust the FY 2016-17 indirect cost pool by all unallowable costs identified.
- Establish written policies and procedures for segregating direct and indirect legal costs in compliance with federal and State regulations.
- Establish written policies and procedures that prevent the Internal Auditor from reviewing and approving travel expense.
- Ensure staff provide adequate documentation supporting any and all travel expenses and comply with SCAG travel policies and procedures and Caltrans Agreement provisions related to travel. Also, report to the board monthly of all travel related expenses incurred by the Executive Director.

SCAG Corrective Action

SCAG has taken aggressive action to address the internal control and procedural deficiencies identified in this finding. The specific seven actions are detailed in the attached matrix. See Attachment A. Five of the seven actions are substantially complete.

SCAG has strengthened its procedures regarding the review of charges to the indirect cost pool and has institutionalized those changes in revisions to its Accounting Manual.

SCAG has also developed a new travel policy compliant with all federal and state regulations regarding travel expenses to implement and train staff by August 31, 2019. However, SCAG respectfully disagrees with the requirement that the Executive Director's travel related expenses be reported to the Board on a monthly basis, proposing instead to report in response to Board inquiry.

In November 2018, SCAG complied with the audit recommendation by adjusting the FY 2014/15 indirect cost pool by \$196,617 and removing \$11,986 from the FY 2016/17 indirect cost pool.

Finding 2B-Unallowable Labor Costs



The Incurred Cost Audit (dated July 24, 2018) identified indirect and ineligible costs charged to Work Element 120 which was established for direct costs related to development and administration of the Overall Work Program (OWP). This will impact the FY 2016-17 ICAP. Eligible tasks included the development of the OWP, preparation of the annual budget and amendments to the budget, and preparation of Quarterly Progress Reports. In the Incurred Cost Audit, Caltrans found that SCAG accountants and contract administrators charged time for the review and approval of consultant invoices which were ineligible and indirect in nature.

SCAG's charging practices remained unchanged for FY 2016-17 and unallowable costs were billed to Work Element 120. Based on an analysis of SCAG's labor reports for FY 2016-17, \$1,625,797 of indirect labor related to accountants, contract administrators, and an internal auditor were inappropriately charged direct to Work Element 120.

SCAG does not have adequate policies and procedures related to labor charging practices. In addition to billing ineligible costs identified, the inappropriate charging practices result in SCAG lacking accurate historical information related to actual costs for future budget purposes and overhead rate calculations.

Corrective Actions:

- Reimburse Caltrans \$1,625,797 in unallowable labor costs. Caltrans DOTP will coordinate with SCAG on the method and schedule of repayment.
- Ensure billings to Caltrans are based on actual labor costs incurred.
- Develop and implement written policies and procedures for proper and consistent labor charging practices. Ensure procedures define appropriate charging practices for staff meetings and other non-project or work element activities.

Once SCAG repays Caltrans the full \$1,625,797 in disallowed costs, they can request to include the disallowed costs in the FY 2016-17 indirect cost pool. If approved, SCAG will then be required to resubmit a revised FY 2016-17 ICAP including the adjustments.

SCAG Corrective Action

SCAG has taken aggressive action to address the internal control and procedural deficiencies identified in this finding. The specific actions are detailed in the attached matrix.

The audit characterized the \$1,625,797 as disallowed costs because they were deemed misclassified as direct costs as opposed to indirect costs. The Department's Corrective Action requires that SCAG, in essence, reimburse Caltrans, reclassify the costs as indirect and rebill for the same costs. To do so will require that SCAG engage in the a time consuming expensive and complex process which involves recalculating prior year indirect cost pools, re-opening closed accounting records, recasting successive years of indirect cost rates and associated billings. It also requires adjustments to previous



years' cost accounting and financial reporting records. Executing the Department's corrective action will also require considerable effort on the part of Caltrans DOTP, Accounting and the Office of the Independent Auditor.

At the core, the costs are eligible and are reimbursable. Embarking on a laborious, time consuming and expensive process that will ultimately have minimal impact on the final result, does not appear to be in SCAG's, Caltrans' or the public interest.

The approach also has a deleterious effect on SCAG and by extension Caltrans, FTA and FHWA. The financial impact of reimbursing Caltrans \$1,625,797 will severely impact SCAG's ability to meet its program objectives. This effect is amplified by the cost recoveries Caltrans is seeking in both the Incurred Cost and the Indirect Cost Allocation Plan audits. Taken in total, the \$4,401,565 will negatively impact SCAG's ability to meet its planning objectives as defined by the OWP.

SCAG proposes an alternative solution. As a result of this audit, SCAG was required to restate its ICAP for the FY15/16 and FY16/17 and compute the FY18/19 rate without the carry-forward from 16/17. This resulted in an under-recovery of \$598,330 at June 30, 2017. SCAG proposes to apply this amount to the requested reimbursement of \$1,625,797, leaving \$1,027,467.

Further, SCAG proposes to substitute other locally funded allowable costs associated with the audit period for the remaining \$1,027,467. A second schedule of proposed substitutions is included with this letter. It is Attachment C titled: Plan of Cost Substitution for WE 120 Costs Disallowed.

Should you have any questions about this letter or need further information, please contact Debbie Dillon, Chief Strategy Officer, at 213-236-1870 or dillon@scag.ca.gov. I look forward to your response.

Sincerely,

Kome Ajise
Executive Director
ajise@scag.ca.gov
213-236-1835

Attachments:

- A. Indirect Cost Allocation Plan Audit Corrective Action Plan Matrix
- B. Indirect Cost Allocation Plan Audit - Plan of Cost Substitution for Disallowed Consultant Costs
- C. Indirect Coat Allocation Plan Audit - Plan of Cost Substitution for WE 120 Costs Disallowed

Cc: Rodney Whitfield, Director of Financial Services, FHWA
Tashia Clemons, Director, Planning and Environment, FHWA



Veneshia Smith, Financial Manager, FHWA
John Bulinski, District Director, District 7, Caltrans
Steve Novotny, DLA Engineer, District 7, Caltrans
MarSue Morrill, Chief, External Audits-Local Governments, Independent Office of
Audits and Investigations, Caltrans
Lisa Pacheco, Acting Division Chief, DOTP, Caltrans
Erin Thompson, Chief, Regional Planning, DOTP, Caltrans
Rihui Zhang, Chief, DLA, Caltrans
Kamal Sah, Chief, Office of Guidance and Oversight, DLA, Caltrans
Gilbert Petrissans, Chief, Division of Accounting, Caltrans
Darin Chidsey, Chief Operating Officer, SCAG
Debbie Dillon, Chief Strategy Officer, SCAG
Basil Panas, Chief Financial Officer, SCAG



Indirect Cost Allocation Plan Audit
Corrective Action Plan Matrix
Attachment A



SCAG
INDIRECT COST ALLOCATION PLAN AUDIT
CORRECTIVE ACTION PLAN

FINDING	REQUIRED CORRECTIVE ACTION	STATUS	% COMPLETE	CORRECTIVE ACTIONS	
FINDING 1- Improper Procurement Procedures	SCAG must revise their Procurement Policies and Procedures manual and train staff accordingly to:	A. Ensure costs that are not in compliance with federal and State procurement regulations are excluded from the indirect cost pool.	Completed and ongoing	100%	SCAG's Manager of Contracts reviews its procurements to ensure they comply with federal and State requirements. If any do not comply, they are funded with local funds.
	B. Revise SCAG's Procurement Policy & Procedures Manual to ensure they are current and comply with all applicable federal and State regulations.	In process	70%	SCAG's Procurement Policies & Procedures Manual will be amended and staff will be trained by October 31, 2019. The CFO will issue written guidance to all staff addressing major changes made and implemented up to the issuance of the new manual detailing incremental revisions.	
	C. Ensure management and staff receive proper training in procurement procedures.	In process	80%	On February 11, 2019, Julie Wiley, SANDAG Special Counsel and Manager of Contracts and Procurement, conducted training at SCAG. Since then SCAG has also been actively collecting best practices, updating practices and communicating regularly at All Staff meetings and management meetings. SCAG will continue to conduct periodic training to ensure education and updated information is shared on a continuous basis.	
	D. Ensure all documentation is maintained to support that proper procurement procedures are followed in accordance with federal and State regulations.	Completed and ongoing	100%	SCAG has restructured the work assignments in the Contracts Department to shift daily procurement activities away from the Manager and to the Contract Administrators. This now enables the Manager of Contracts to spend more time on oversight to ensure that all documentation is maintained to support that proper procurement procedures are followed in accordance with state and federal regulations. Particular attention is being paid to documenting the preparation and receipt of the independent cost estimates. The Manager of Contracts now uses a more detailed sign-off sheet to review and approve procurement actions.	
	E. Take Caltrans, Division of Local Assistance (DLA) A&E consultant procurement training either in person or online at http://www.dot.ca.gov/hq/LocalPrograms/training.html	In process	25%	SCAG will take the A&E training scheduled at Caltrans District 7 on August 15, 2019. To help prepare for this training and better identify A&E type projects and how to procure and administer them, on May 22 2019, procurement staff attended "Using the AASHTO Audit Guide for the Procurement and Administration of A/E Contracts." Following the August training, SCAG procurement staff will disseminate the information at a SCAG's All Staff Meeting to further support ongoing procurement training efforts pending the complete update of the SCAG Procurement Manual. Staff attempted to take the online training but the link would fail during the training. That link has now been removed.	
	In addition, SCAG must:	Reimburse Caltrans \$627,179 for the disallowed IT consultant contract costs identified in the audit report.	TBD		SCAG proposes to substitute other allowable project costs in the amount of the audit finding of \$627,179.
		Adjust the FY2014-15 actual indirect cost pool by \$164,628 for the unallowable IT consultant costs identified in the audit report.	Completed	100%	Submitted to IOAI on November 19, 2018. Changes to the certification were submitted on November 27, 2018.

SCAG
INDIRECT COST ALLOCATION PLAN AUDIT
CORRECTIVE ACTION PLAN

FINDING	REQUIRED CORRECTIVE ACTION	STATUS	% COMPLETE	CORRECTIVE ACTIONS
	Determine the amount incurred and included in the FY2016-17 indirect cost pool for the seven unallowable IT consultant contracts and adjust the FY2016-17 indirect cost pool accordingly.	Completed	100%	Submitted to IOAI on November 19, 2018. Changes to the certification were submitted on November 27, 2018.
FINDING 2A – Unallowable Indirect Costs Included in the FY2016/17 ICAP	A. Adjust the FY 2014/15 actual indirect cost pool by \$196,617 for the unallowable costs identified in the audit report.	Completed	100%	Submitted to IOAI on November 19, 2018. Changes to the certification were submitted on November 27, 2018.
	B. Remove \$11,986 from the indirect cost pool for FY 2016/17 for the unallowable travel costs.	Completed	100%	Submitted to IOAI on November 19, 2018. Changes to the certification were submitted on November 27, 2018.
	C. Review all indirect accounts to ensure costs are in compliance with federal and State regulations; are properly segregated between direct, indirect and allowable; and are supported by original source documentation.	Completed and ongoing	100%	Accounting staff review the charges to Indirect Cost accounts for propriety and this procedure has been added to the Accounting Manual in draft form. SCAG will review and finalize the Manual and train staff by October 31, 2019.
	D. Adjust the FY 2016/17 indirect cost pool by all unallowable costs identified.	Completed	100%	Submitted to IOAI on November 19, 2018. Changes to the certification were submitted on November 27, 2018.
	E. Establish written policies and procedures for segregating direct and indirect legal costs in compliance with federal and State regulations.	In process	70%	Changes to the Accounting Manual have been drafted. They will be reviewed and finalized and staff will be trained by October 31, 2019. The CFO has met with the Chief Counsel to convey the needs of this finding with respect to invoices for legal services.
	F. Establish written policies and procedures that prevent the Internal Auditor from reviewing and approving travel expense.	In process	70%	Changes to the Accounting Manual have been drafted to specifically exclude Internal Audit from the travel expense review process. SCAG will review and finalize the Manual and train staff by October 31, 2019.
	G. Ensure staff provide adequate documentation supporting any and all travel expenses and comply with SCAG travel policies and procedures and Caltrans Agreement provisions related to travel. Also, report to the board monthly all travel related expenses incurred by the Executive Director.	Completed with the exception of reporting Executive Director travel to the board monthly. SCAG respectfully disagrees that this is required by CalTrans and therefore should it be requested by the Board, it will be provided.	100%	SCAG has developed a new travel policy to be compliant with all federal and State regulations regarding travel. The policy will be issued and staff training provided by August 31, 2019.
Finding 2B - Unallowable Labor Costs	A. Reimburse Caltrans \$1,625,797 in unallowable labor costs	TBD		SCAG requests that Caltrans DOTP address this finding with a programmatic solution recognizing that SCAG has made the necessary internal control and procedural changes to address the finding and prevent a future recurrence.
	B. Ensure billings to Caltrans are based on actual labor costs incurred.	Completed and ongoing	100%	SCAG is actively monitoring labor charges to ensure that staff charge time to the correct work element or non-project activities. New policies and procedures for labor charging practices including monitoring available labor hours for direct and indirect projects, and amending the labor budget as required, will be developed and included in the Finance manuals and in the new project management manual. Finance will provide training to all staff by October 31, 2019.

SCAG
INDIRECT COST ALLOCATION PLAN AUDIT
CORRECTIVE ACTION PLAN

FINDING	REQUIRED CORRECTIVE ACTION		STATUS	% COMPLETE	CORRECTIVE ACTIONS
		C. Develop and implement written policies and procedures for proper and consistent labor charging practices. Ensure procedures define appropriate charging practices for staff meetings and other non-project or work element activities.	In process	70%	Starting with FY 2017-18, no time is charged to Work Element 120 except for Budget and Grants staff. Staff meetings and other non-project or work element activities are charged to the Indirect Cost fund in a new indirect cost activity (810-0120.06). New policies and procedures for labor charging practices including monitoring available labor hours for direct and indirect projects, and amending the labor budget as required, will be developed and included in the Finance manuals and in the new project management manual. Finance will provide training to all staff by October 31, 2019.

Indirect Cost Allocation Plan Audit
Plan of Cost Substitution for Disallowed Consultant Costs
Attachment B



SCAG
Indirect Cost Allocation Plan Audit
Plan of Cost Substitution for Disallowed Consultant Costs

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V
												DISALLOWED COSTS	SUBSTITUTE COSTS									
													Total of Substitute Costs	Consultant costs in 045-0142.22	Consultant costs in 050-0169.03	Consultant costs in 055-0133.05	Consultant costs in 055-0133.06	Consultant costs in 055-1531.01	Consultant costs in 065-0137.09	Consultant costs in 065-2663.02	Consultant costs in 140-0121.06	
	Consultant	Contract Number	Original Contract Amount	Final Contract Amount	Contract Execution Date	Contract Expiration Date	No. of Amendments	No. of Amendments on Expired Contracts	No. of Amendments with No Documentation	Unallowable Consultant Contract	Unallowable Amounts in the FY 2014/15 ICAP	Unallowable Costs Billed Direct FY 2014/15 thru 2016/17		Planning System Development	Active Transportation: Economic Impact Study	Regional Growth & Policy Analysis	University Partnerships & Collaboration	So. Cal. Economic Strategy	CEO Sustainability Working Group	RTP/SCS Land Use Policy & Program Development	LA-San Bernardino Intercounty Connectivity Study	
														FY16	FY16	FY16	FY16	FY16	FY16	FY16	FY16	
5	AgreeYa Solutions, Inc.	13-034-C1	\$ 34,000	\$ 243,000	3/12/2013	7/31/2013	6	2	1	X	\$ 101,018											
6	Allied Network Solutions, Inc.	14-004-C1	\$ 124,000	\$ 503,000	8/6/2013	6/30/2015	6	3	4	X	\$ 185,629	\$ 185,629	\$ 75,033	\$ 99,710	\$ 10,887							
7	Celer Systems, Inc.	15-025-C1	\$ 90,000	\$ 260,000	2/5/2015	6/30/2015	2	2	1	X												
8	22nd Century Technologies, Inc.	15-018-C1	\$ 75,000	\$ 292,110	2/2/2015	6/30/2015	3	2	1	X	\$ 188,104	\$ 188,104		\$ 23,434	\$ 108,894	\$ 55,776						
9	22nd Century Technologies, Inc.	15-018-C2	\$ 75,000	\$ -	2/5/2015	-	-	N/A	-													
10	Logic House Ltd. Corp.	14-005-C1	\$ 170,000	\$ 478,896	10/15/2013	6/30/2015	3	2	2	X	\$ 78,485	\$ 78,485						\$ 45,097	\$ 33,388			
11	Acro Service Corp.	13-017-C1	\$ 100,000	\$ 373,600	11/15/2012	-	4	N/A	2	X	\$ 57,596											
12	RADgov, Inc.	13-016-C1	\$ 175,000	\$ 627,632	9/24/2012	12/19/2013	5	3	3	X	\$ 6,014	\$ 174,961	\$ 174,961						\$ 71,612	\$ 42,346	\$ 61,003	
13	AgreeYa Solutions, Inc.	14-021-C1	\$ 156,000	\$ 255,201	6/3/2014	-	7	N/A	-													
14	Civic Resource Group, LLC	14-021-C1	\$ 162,181	\$ 204,293	6/5/2015	-	5	N/A	-													
15							41	14	14		\$ 164,628	\$ 627,179	\$ 627,179	\$ 75,033	\$ 99,710	\$ 34,321	\$ 108,894	\$ 100,873	\$ 105,000	\$ 42,346	\$ 61,003	

Indirect Cost Allocation Plan Audit
Plan of Cost Substitution for WE 120 Costs Disallowed
Attachment C



SCAG
Indirect Cost Allocation Plan Audit
Plan of Cost Substitution for WE120 Costs Disallowed

Category	Period Costs Incurred	Total Disallowed Costs Paid by Caltrans
Accountants/Contract Administrators and Legal Staff charged to WE 120	FY17	<u>\$ 1,625,797</u>
Indirect costs under-recovered at June 30, 2017 in accordance with revised ICAP:		<u>\$ 598,330</u>
Substitute Costs in:		
055-0133.06 University Partnerships & Collaboration	FY17	133,672
055-1531.01 So. Cal. Economic Growth Strategy	FY17	91,185
090-0148.01 Public Information & Communication	FY17	<u>802,610</u>
Total Costs to be Substituted		<u>\$ 1,027,467</u>
Total of Indirect Cost Under-Recovery and Substituted Costs		<u><u>1,625,797</u></u>



SCAG
INCURRED COST AUDIT
CORRECTIVE ACTION PLAN
10-15-19

FINDINGS	REQUIRED CORRECTIVE ACTION	STATUS	% COMPLETE	SCAG CORRECTIVE ACTION	Count	100% complete	90% + complete	< 90% complete
FINDING #1- Improper Procurement Procedures	SCAG must revise their Procurement Policies and Procedures manual and train staff accordingly, to ensure:	A. Compliance with all applicable Caltrans requirements and federal and State and federal procurement regulations. This includes revising section 6.6.2 to describe the different competitive procurement processes available and when each should be used in compliance with federal and State regulations.	In Process	70%	In advance of finalizing an update to the procurement manual, the CFO has and will continue to implement interim written guidance and provide training at various staff meetings on changes made since Audit Findings submitted to SCAG.	1	YES	
		B. Proper management decisions are made when preparing Requests for Proposal that include tasks or sub-tasks that require an Architectural & Engineering (A&E) consultant to perform the work for compliance with federal and State procurement regulations.	Completed and ongoing	100%	Until SCAG staff attend the August 15th A&E training currently scheduled at District 7, SCAG staff are following the A&E guidance in the Local Assistance Procedures Manual.	2	YES	
		C. Management and staff receive proper training in procurement procedures.	In Process	75%	On 2/11/19, Julie Wiley, SANDAG Special Counsel and Manager of Contracts and Procurement, conducted training at SCAG. Since then SCAG has also been actively collecting best practices, updating practices and communicating regularly at All Staff meetings and management meetings. SCAG will continue to conduct period training to ensure education and updated information is shared on a continuous basis.	3	YES	
		D. Staff that are involved in the consultant procurement process perform all required actions and comply with SCAG policies and procedures, Caltrans requirements, and federal and State procurement regulations.	Completed and ongoing	100%	SCAG has restructured the work assignments in the Contracts Department to shift daily procurement activities away from the Manager to the Contract Administrators. This now enables the Manager of Contracts to spend more time spent on oversight to ensure compliance with SCAG policies and procedures, Caltrans requirements, and federal and State procurement guidelines.	4	YES	
		E. All documentation is maintained to support that proper procurement procedures are followed in accordance with federal and State regulations.	Completed and ongoing	100%	SCAG has restructured the work assignments in the Contracts Department to shift daily procurement activities away from the Manager and to the Contract Administrators. This now enables the Manager of Contracts to spend more time on oversight to ensure that all documentation is maintained to support that proper procurement procedures are followed in accordance with state and federal regulations. Particular attention is being paid to documenting the preparation and receipt of the independent cost estimates. The Manager of Contracts now uses a more detailed sign-off sheet to review and approve procurement actions.	5	YES	
		F. SCAG must also take the DLA A&E consultant procurement training either in person or online. A training webinar is tentatively scheduled to be posted in late May. If SCAG elects to take the online training, they must provide a list to the DLA Audits Coordinator for those staff who have completed the online training when available. The list shall contain staff names, phone numbers, e-mail addresses, date(s) of completion, and a verification by the staff's supervisor.	In Process	80%	SCAG will take the A&E training scheduled at Caltrans District 7 on August 15, 2019. To help prepare for this training and better identify A&E type projects and how to procure and administer them, on May 22, 2019, procurement staff attended "Using the AASHTO Audit Guide for the Procurement and Administration of A/E Contracts." Following the August training, SCAG procurement staff will disseminate the information at SCAG's All Staff Meeting to further support ongoing procurement training efforts pending the complete update of the SCAG Procurement Manual. Staff attempted to take the online training but the link would fail during the training. That link has now been removed.	6	YES	

SCAG
INCURRED COST AUDIT
CORRECTIVE ACTION PLAN
10-15-19

FINDINGS	REQUIRED CORRECTIVE ACTION	STATUS	% COMPLETE	SCAG CORRECTIVE ACTION	Count	100% complete	90% + complete	< 90% complete
FINDING #2 – Contract Management Deficiencies	SCAG must reimburse Caltrans DLA \$338,986 in disallowed costs for the contract with AECOM Technical Services, Inc. The removal of sub-consultants and Task 7 (Consensus) at contract execution, and then reinstating Task 7 at an increase of \$619,940 over the initial budget, bear significant noncompliance to warrant reimbursement of the costs disallowed in the audit.	TBD		SCAG proposes to substitute other allowable project costs in the amount of the audit finding of \$338,986.				
	SCAG must reimburse Caltrans DOTP \$251,552 of disallowed costs to Caltrans. Caltrans DOTP will coordinate with SCAG on the method and schedule of repayment.	TBD		SCAG proposes to substitute other allowable project costs in the amount of the audit finding of \$251,552				
SCAG must strengthen procurement and contract management procedures to address the following deficiencies:	A. Ensure consultants provide adequate invoice detail to support costs claimed in compliance with consultant contract terms and 2 CFR Part 200 (which superseded 49 CFR Part 18, and 2 CFR Part 225). Additionally, ensure consultants are required to submit invoices that identify the work performed by task/activity and work element so proper documentation is maintained to support consultant billings. Ensure compliance with all federal and State regulations over the administration of consultant contracts.	Completed and ongoing	100%	SCAG has communicated the requirements to staff and consultants and increased monitoring of non-compliant consultants to ensure the contract provision which requires all invoices to be accompanied by a progress report that states the percentage of work completed. SCAG has amended its contract template, and drafted changes to its Procurement Policies and Procedures Manual and Accounting Manual to require that consultant invoices show the billings applicable to each project/cost element. Invoices that do not comply are rejected. SCAG will provide training to staff by October 31, 2019.	7	YES		
	B. Establish procedures that identify and define each staff's roles and responsibilities regarding consultant invoice reviews.	In Process	25%	SCAG engaged a project management consultant to: (a) Assist in process improvement including role and responsibilities definition; (b) Develop a procedures manual; and (c) Provide training. They completed their Scope of Work and SCAG is in the process of establishing a PMO office that reports directly to the Executive Office. SCAG is in the process of hiring staff for the PMO who will be responsible for establishing, and monitoring best practices agency wide. Goal is to have roles/responsibilities, processes, tools and procedures completed and fully implemented by June 30, 2020.	8			YES
	C. Revise the Grants Management Policies and Procedures and develop a Project Management Policies and Procedures Manual to ensure compliance with all applicable federal and State regulations and provide staff with detailed processes to follow.	In Process	25%	The updates to the Grants Policy and Procedures Manual have been made in draft form. They will be reviewed and finalized. The status of the PMO is described above.	9		YES	
	D. Ensure consultant contracts identify the funding sources and/or work elements of each task/activity when there are multiple funding sources and/or work elements.	Completed and ongoing	100%	The Funding Summary (formerly Contract Exhibit "D") shows the funding sources and/or work elements of each task/activity when there are multiple funding sources and/or work elements.	10	YES		
	E. Ensure compliance with all federal and State regulations over the administration of consultant contracts and that the contracts contain language as required in the Caltrans' agreements.	In process	95%	SCAG implemented the contract closeout procedures required by the Local Assistance Procedures Manual Chapter 10.8 and PCC section 10369 in June 2018 and has updated its Procurement Policies and Procedures Manual accordingly. SCAG ceased the practice of retroactive contract amendments in December 2017. Deliverables have been stored in the electronic folder for the applicable contract beginning with FY17 deliverables (received June - August 2018). SCAG will also change its method for the annual funding of multi-year contracts to help reduce the number of contract amendments. Each year's funding shall be done by way of a purchase order and not a contract amendment.	11		YES	

SCAG
INCURRED COST AUDIT
CORRECTIVE ACTION PLAN
10-15-19

FINDINGS	REQUIRED CORRECTIVE ACTION	STATUS	% COMPLETE	SCAG CORRECTIVE ACTION	Count	100% complete	90% + complete	< 90% complete
	F. Ensure compliance with all federal and State regulations over the administration of sub-recipient (MOU) agreements, that agreements contain language as required in the Caltrans' agreements and include specific contract end dates.	Completed and ongoing	100%	SCAG has updated its MOU template to: (1) Require project related travel and subsistence expenses of contractors consistent with California Department of Personnel Administration rates; (2) Reference 48 CFR Ch. 1 Part 31 when discussing sub-contractor and third party compliance for applicable cost principles. SCAG has updated its MOU template to require that the type of contract be specified as required by the Caltrans Local Assistance Procedures Manual in Chapter 10, and to include specific contract end dates. The Grants Policies and Procedures Manual has been revised to include the revised MOU language on page 26 and the revised MOU template as Exhibit 10. The revised MOU language was implemented in December 2018 and has been used in the most recent MOUs. Finance will provide training to project managers by October 31, 2019.	12	YES		
	G. Ensure staff are properly trained on the administration and management of consultant and sub-recipient pass through funds.	In Process	80%	Budget & Grants staff is knowledgeable of federal regulations for administering pass-through funds and financial monitoring of sub-recipients. The policies and procedures for subrecipient monitoring are documented in the 2019 Grants Policies & Procedures Manual beginning on page 28. Finance will conduct training for project managers responsible for the administration and management of consultant and sub-recipient pass through funds by October 31, 2019.	13		YES	
FINDING #3 - Labor and Fringe Benefit Deficiencies	SCAG must:	Reimburse the \$1,558,051 of disallowed costs to Caltrans DOTP.	TBD	SCAG requests that Caltrans DOTP address this finding with a programmatic solution recognizing that SCAG has made the necessary internal control and procedural changes to address the finding and prevent a future recurrence.				
	Additionally SCAG must:	A. Ensure billings to Caltrans are based on actual labor costs incurred.	Completed and ongoing	100%	SCAG is actively monitoring labor charges to ensure that staff charge time to the correct work element or non-project activities. New policies and procedures for labor charging practices including monitoring available labor hours for direct and indirect projects, and amending the labor budget as required, will be developed and included in the Finance manuals and in the new project management manual. Finance will provide training to all staff by October 31, 2019.	14	YES	
		B. Ensure the accounting methodology for retroactive pay and merit increases provides for an audit trail for changes made to the employee time sheets and costs are allocated to the appropriate pay periods.	Completed and ongoing	100%	SCAG's implemented a new procedure for retroactive pay in October 2018 whereby the retroactive amount is applied to the periods covered by the increase. Thus, the projects & non-work time categories that were charged by the employee during the period covered by the retroactive pay share the cost of the increase. The support documents for these adjustments is retained for audit purposes.	15	YES	

SCAG
INCURRED COST AUDIT
CORRECTIVE ACTION PLAN
10-15-19

FINDINGS	REQUIRED CORRECTIVE ACTION	STATUS	% COMPLETE	SCAG CORRECTIVE ACTION	Count	100% complete	90% + complete	< 90% complete
	C. Develop and implement written policies and procedures for proper and consistent labor charging practices. Ensure procedures define appropriate charging practices for staff meetings and other non-project or work element activities.	In Process	75%	Starting with FY18, no time is charged to Work Element 120 except for Budget and Grants staff. Staff meetings and other non-project or work element activities are charged to the Indirect Cost fund in a new indirect cost activity (810-0120.06). New policies and procedures for labor charging practices including monitoring available labor hours for direct and indirect projects, and amending the labor budget as required, will be developed and included in the Accounting Manual and in the new project management manual. Finance will provide training to all staff by October 31, 2019.	16		YES	
	D. Update the Accounting Manual to include procedures for time sheet corrections and retroactive pay and merit increases and train staff accordingly.	In Process	95%	New procedures were implemented in October 2018 where retroactive pay increases are coded to the proj/task combinations where the employee charged time after the effective date of the pay rate increase. Changes to the Accounting Manual have been drafted to reflect the new procedures and training will be provided by October 31, 2019.	17		YES	
	E. Develop separate fringe benefit allocation methodologies for regular staff, and interns and student assistants.	Completed	100%	The new fringe benefit allocation methodology for non-regular staff was implemented in the accounting system in July 2018 and in the budget effective in FY20. Both were reviewed and approved by the CFO. Budget & Grants will develop a written policy and procedure and include in the 2019 Budget & Grants Policies & Procedures Manual by October 31, 2019.	18	YES		
FINDING #4 – Billing and Reporting Deficiencies	SCAG must revise their billing and reporting procedures to ensure the following:	A. Billings to Caltrans include all applicable information and supporting documentation that trace to the billed costs and SCAG's financial management system. This includes ensuring the Consolidated Planning Grant IT Reports (or equivalent information) are provided and totaled by task associated to the respective work elements that are approved in the current OWP by the Federal Highway Administration (FHWA) and the Federal Transit Administration (FTA).	Completed and ongoing	100%	SCAG has developed a billing document checklist for billings to Caltrans. It includes the CPG IT report. The checklist requires the signature of the Accounting Manager and the Caltrans staff member who takes physical receipt of the billing package. This was put into effect with the September 2018 billings.	19	YES	
		B. Supporting schedules provided with the billings include appropriate descriptions detailing where costs are being charged.	Completed and ongoing	100%	SCAG no longer uses the term "Other Project" to describe consultant costs billed to another funding source. The funding source is identified separately. The Manager of Accounting reviews all invoices to Caltrans for compliance with this requirement.	20	YES	
FINDING #5 – Possible Conflict of Interest with Sponsorship Program	In order to avoid the appearance of a possible conflict of interest, SCAG must:	A. Establish procedures over the Sponsorship Program to ensure there is no real or appearance of a conflict of interest with consultants that provided donations to the Sponsorship Program and are awarded consultant contracts.	Completed	100%	Staff has drafted a policy and procedure for the Sponsorship program which addresses the conflict of interest concerns. The Policy requires board approval which is anticipated to occur in August.	21	YES	
		B. Develop policies and procedures over the administration and management of the Sponsorship Program to ensure compliance with all federal and State regulations.	Completed	100%	Staff has drafted a policy and procedure for the Sponsorship program which ensures compliance with all federal and State regulations. The Policy is subject to board approval which is expected in August.	22	YES	
		C. Create a Conflict of Interest Statement of Certification form to document compliance with SCAG's own policies and procedures referenced above.	Completed	100%	SCAG will draft a Certification form after approval fo the Policy by the board.	23	YES	
					-	14	8	1

SCAG
INDIRECT COST ALLOCATION PLAN AUDIT
CORRECTIVE ACTION PLAN

FINDING	REQUIRED CORRECTIVE ACTION	STATUS	% COMPLETE	CORRECTIVE ACTIONS	Count	100% complete	90% + complete	< 90% complete
FINDING 1- Improper Procurement Procedures	SCAG must revise their Procurement Policies and Procedures manual and train staff accordingly to:	A. Ensure costs that are not in compliance with federal and State procurement regulations are excluded from the indirect cost pool.	Completed and ongoing	100%	SCAG's Manager of Contracts reviews its procurements to ensure they comply with federal and State requirements. If any do not comply, they are funded with local funds.	1	YES	
		B. Revise SCAG's Procurement Policy & Procedures Manual to ensure they are current and comply with all applicable federal and State regulations.	In process	70%	SCAG's Procurement Policies & Procedures Manual will be amended and staff will be trained by October 31, 2019. The CFO will issue written guidance to all staff addressing major changes made and implemented up to the issuance of the new manual detailing incremental revisions.	2		YES
		C. Ensure management and staff receive proper training in procurement procedures.	In process	80%	On February 11, 2019, Julie Wiley, SANDAG Special Counsel and Manager of Contracts and Procurement, conducted training at SCAG. Since then SCAG has also been actively collecting best practices, updating practices and communicating regularly at All Staff meetings and management meetings. SCAG will continue to conduct periodic training to ensure education and updated information is shared on a continuous basis.	3		YES
		D. Ensure all documentation is maintained to support that proper procurement procedures are followed in accordance with federal and State regulations.	Completed and ongoing	100%	SCAG has restructured the work assignments in the Contracts Department to shift daily procurement activities away from the Manager and to the Contract Administrators. This now enables the Manager of Contracts to spend more time on oversight to ensure that all documentation is maintained to support that proper procurement procedures are followed in accordance with state and federal regulations. Particular attention is being paid to documenting the preparation and receipt of the independent cost estimates. The Manager of Contracts now uses a more detailed sign-off sheet to review and approve procurement actions.	4	YES	
		E. Take Caltrans, Division of Local Assistance (DLA) A&E consultant procurement training either in person or online at http://www.dot.ca.gov/hq/LocalPrograms/training.html	In process	25%	SCAG will take the A&E training scheduled at Caltrans District 7 on August 15, 2019. To help prepare for this training and better identify A&E type projects and how to procure and administer them, on May 22, 2019, procurement staff attended "Using the AASHTO Audit Guide for the Procurement and Administration of A/E Contracts." Following the August training, SCAG procurement staff will disseminate the information at a SCAG's All Staff Meeting to further support ongoing procurement training efforts pending the complete update of the SCAG Procurement Manual. Staff attempted to take the online training but the link would fail during the training. That link has now been removed.	5		YES
	In addition, SCAG must:	Reimburse Caltrans \$627,179 for the disallowed IT consultant contract costs identified in the audit report.	TBD		SCAG proposes to substitute other allowable project costs in the amount of the audit finding of \$627,179.			

SCAG
INDIRECT COST ALLOCATION PLAN AUDIT
CORRECTIVE ACTION PLAN

FINDING	REQUIRED CORRECTIVE ACTION	STATUS	% COMPLETE	CORRECTIVE ACTIONS	Count	100% complete	90% + complete	< 90% complete
	Adjust the FY2014-15 actual indirect cost pool by \$164,628 for the unallowable IT consultant costs identified in the audit report.	Completed	100%	Submitted to IOAI on November 19, 2018. Changes to the certification were submitted on November 27, 2018.	6	YES		
	Determine the amount incurred and included in the FY2016-17 indirect cost pool for the seven unallowable IT consultant contracts and adjust the FY2016-17 indirect cost pool accordingly.	Completed	100%	Submitted to IOAI on November 19, 2018. Changes to the certification were submitted on November 27, 2018.	7	YES		
FINDING 2A – Unallowable Indirect Costs Included in the FY2016/17 ICAP	A. Adjust the FY 2014/15 actual indirect cost pool by \$196,617 for the unallowable costs identified in the audit report.	Completed	100%	Submitted to IOAI on November 19, 2018. Changes to the certification were submitted on November 27, 2018.	8	YES		
	B. Remove \$11,986 from the indirect cost pool for FY 2016/17 for the unallowable travel costs.	Completed	100%	Submitted to IOAI on November 19, 2018. Changes to the certification were submitted on November 27, 2018.	9	YES		
	C. Review all indirect accounts to ensure costs are in compliance with federal and State regulations; are properly segregated between direct, indirect and allowable; and are supported by original source documentation.	Completed and ongoing	100%	Accounting staff review the charges to Indirect Cost accounts for propriety and this procedure has been added to the Accounting Manual in draft form. SCAG will review and finalize the Manual and train staff by October 31, 2019.	10	YES		
	D. Adjust the FY 2016/17 indirect cost pool by all unallowable costs identified.	Completed	100%	Submitted to IOAI on November 19, 2018. Changes to the certification were submitted on November 27, 2018.	11	YES		
	E. Establish written policies and procedures for segregating direct and indirect legal costs in compliance with federal and State regulations.	In process	70%	Changes to the Accounting Manual have been drafted. They will be reviewed and finalized and staff will be trained by October 31, 2019. The CFO has met with the Chief Counsel to convey the needs of this finding with respect to invoices for legal services.	12		YES	
	F. Establish written policies and procedures that prevent the Internal Auditor from reviewing and approving travel expense.	In process	70%	Changes to the Accounting Manual have been drafted to specifically exclude Internal Audit from the travel expense review process. SCAG will review and finalize the Manual and train staff by October 31, 2019.	13		YES	
	G. Ensure staff provide adequate documentation supporting any and all travel expenses and comply with SCAG travel policies and procedures and Caltrans Agreement provisions related to travel. Also, report to the board monthly all travel related expenses incurred by the Executive Director.	Completed with the exception of reporting Executive Director travel to the board monthly. SCAG respectfully disagrees that this is required by CalTrans and therefore should it be requested by the Board, it will be provided.	100%	SCAG has developed a new travel policy to be compliant with all federal and State regulations regarding travel. The policy will be issued and staff training provided by August 31, 2019.	14	YES		
Finding 2B - Unallowable Labor Costs	A. Reimburse Caltrans \$1,625,797 in unallowable labor costs	TBD		SCAG requests that Caltrans DOTP address this finding with a programmatic solution recognizing that SCAG has made the necessary internal control and procedural changes to address the finding and prevent a future recurrence.				

SCAG
INDIRECT COST ALLOCATION PLAN AUDIT
CORRECTIVE ACTION PLAN

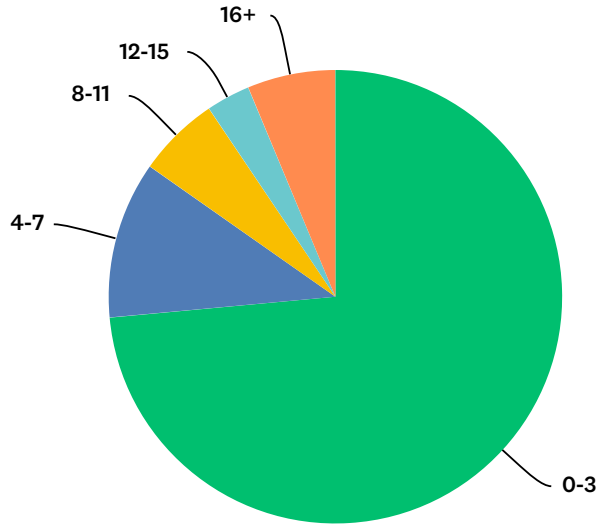
FINDING	REQUIRED CORRECTIVE ACTION		STATUS	% COMPLETE	CORRECTIVE ACTIONS	Count	100% complete	90% + complete	< 90% complete
		B. Ensure billings to Caltrans are based on actual labor costs incurred.	Completed and ongoing	100%	SCAG is actively monitoring labor charges to ensure that staff charge time to the correct work element or non-project activities. New policies and procedures for labor charging practices including monitoring available labor hours for direct and indirect projects, and amending the labor budget as required, will be developed and included in the Finance manuals and in the new project management manual. Finance will provide training to all staff by October 31, 2019.	15	YES		
		C. Develop and implement written policies and procedures for proper and consistent labor charging practices. Ensure procedures define appropriate charging practices for staff meetings and other non-project or work element activities.	In process	70%	Starting with FY 2017-18, no time is charged to Work Element 120 except for Budget and Grants staff. Staff meetings and other non-project or work element activities are charged to the Indirect Cost fund in a new indirect cost activity (810-0120.06). New policies and procedures for labor charging practices including monitoring available labor hours for direct and indirect projects, and amending the labor budget as required, will be developed and included in the Finance manuals and in the new project management manual. Finance will provide training to all staff by October 31, 2019.	16		YES	
						-	10	6	0

	A	B	C	D	E	F	G	H
1			RAW DATA					
2			0 - 3	4 - 7	8 - 11	12 - 15	16+	Total
3	1	How many times have you bid on SCAG work?	164	25	13	7	14	223
4								
5	2	How many SCAG contracts have you been awarded?	196	18	2	2	5	223
6								
7	3	How many other California Public Agencies do you conduct work for?	69	59	24	16	55	223
8								
9			Strongly Disagree	Disagree	Neutral	Agree	Strongly agree	
10	4	The scope of work in SCAG's RFPs is easy to understand .	20	96	73	24	10	223
11								
12	5	The scope of work in SCAG's RFPs is defined well enough for you to prepare a responsive proposal.	20	89	78	25	11	223
13								
14	6	SCAG allows you enough time to respond to RFPs.	17	106	75	20	5	223
15								
16	7	SCAG is responsive to your questions about the RFP.	17	82	106	13	5	223
17								
18	8	SCAG is responsive to your concerns about not being awarded the contract.	6	35	145	20	17	223
19								
20	9	It is easy to comply with SCAG's contract template.	10	58	104	36	15	223
21								
22	10	It is easy to comply with the pre-award review performed by SCAG's Internal Auditor.	5	45	131	26	16	223
23								
24	11	SCAG's requirements regarding contract amendments are not more cumbersome than other public agencies.	7	48	131	18	19	223
25								
26	12	SCAG staff provide clear and consistent guidance for contract and invoicing issues.	11	49	131	21	11	223
27								
28	13	SCAG's requirements regarding invoicing are not more cumbersome than other public agencies.	6	38	134	21	24	223
29								
30	14	SCAG pays its vendors on a timely basis.	8	46	150	11	8	223
31								
32	15	I am satisfied with the payment method SCAG uses (paper check or electronic payment).	12	57	150	2	2	223
33								
34	16	It is not more worthwhile to pursue contracting opportunities at public agencies other than SCAG.	10	25	112	42	34	223
35								
36		Total	149	774	1,520	279	177	2,899
37								
38			32%		52%	16%		
39			Unfavorable		Neutral	Favorable		

VENDOR SURVEY

Q1 How many times have you bid on SCAG work?

Answered: 223 Skipped: 0

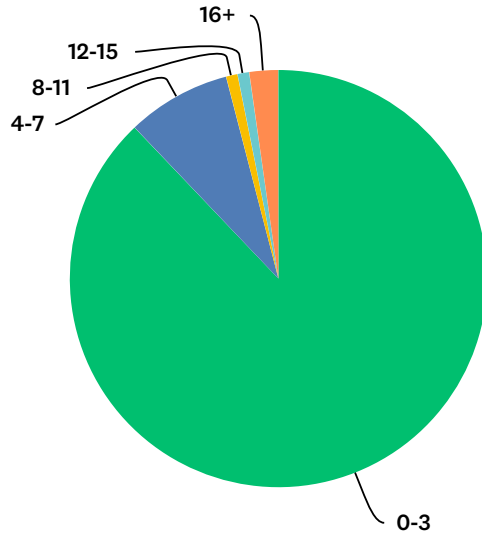


ANSWER CHOICES	RESPONSES	
0-3	73.54%	164
4-7	11.21%	25
8-11	5.83%	13
12-15	3.14%	7
16+	6.28%	14
TOTAL		223

VENDOR SURVEY

Q2 How many SCAG contracts have you been awarded?

Answered: 223 Skipped: 0

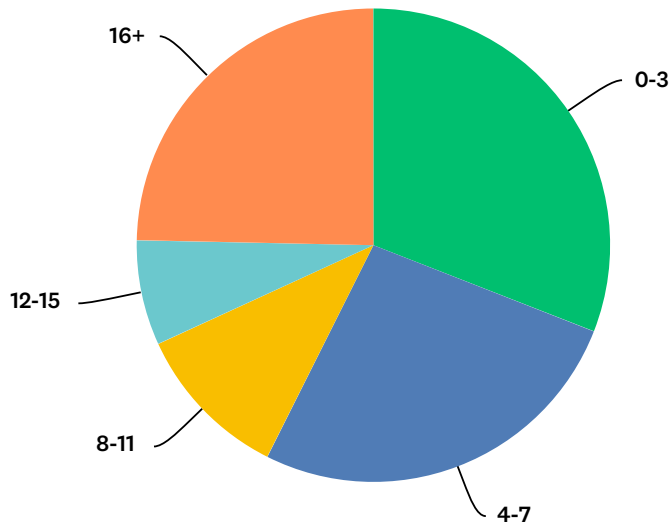


ANSWER CHOICES	RESPONSES	
0-3	87.89%	196
4-7	8.07%	18
8-11	0.90%	2
12-15	0.90%	2
16+	2.24%	5
TOTAL		223

VENDOR SURVEY

Q3 How many other California Public Agencies do you conduct work for?

Answered: 223 Skipped: 0

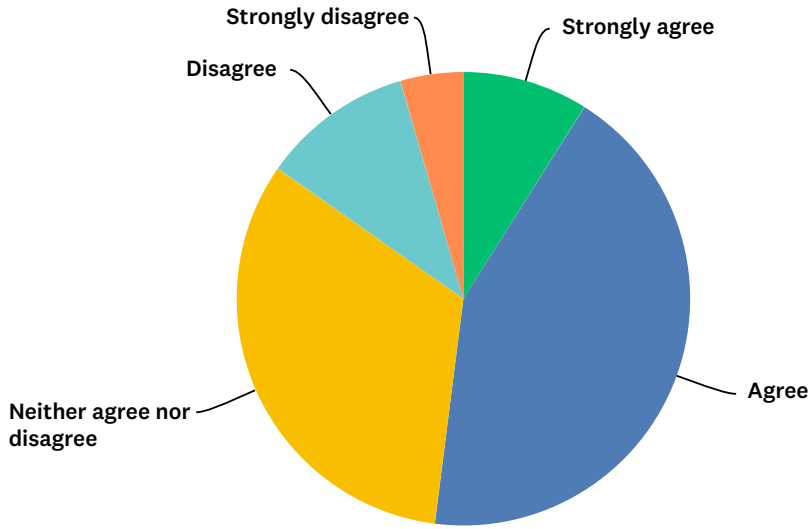


ANSWER CHOICES	RESPONSES	
0-3	30.94%	69
4-7	26.46%	59
8-11	10.76%	24
12-15	7.17%	16
16+	24.66%	55
TOTAL		223

VENDOR SURVEY

Q4 The scope of work in SCAG's RFPs is easy to understand .

Answered: 223 Skipped: 0

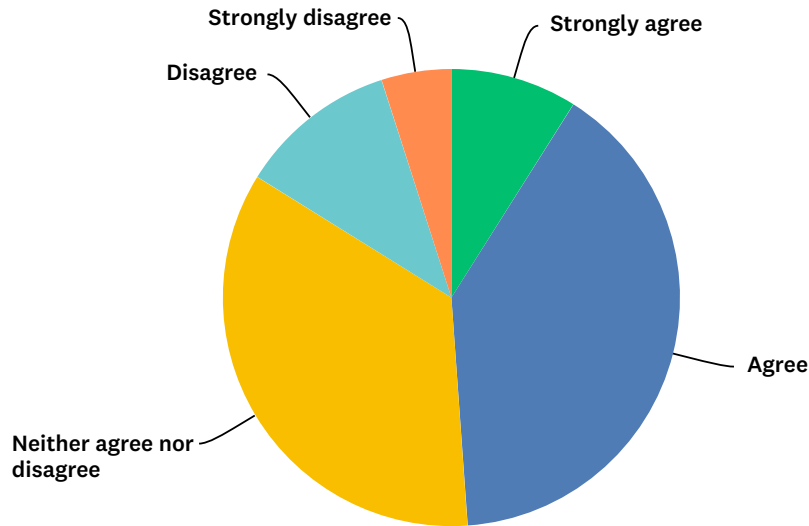


ANSWER CHOICES	RESPONSES	
Strongly agree	8.97%	20
Agree	43.05%	96
Neither agree nor disagree	32.74%	73
Disagree	10.76%	24
Strongly disagree	4.48%	10
TOTAL		223

VENDOR SURVEY

Q5 The scope of work in SCAG's RFPs is defined well enough for you to prepare a responsive proposal.

Answered: 223 Skipped: 0

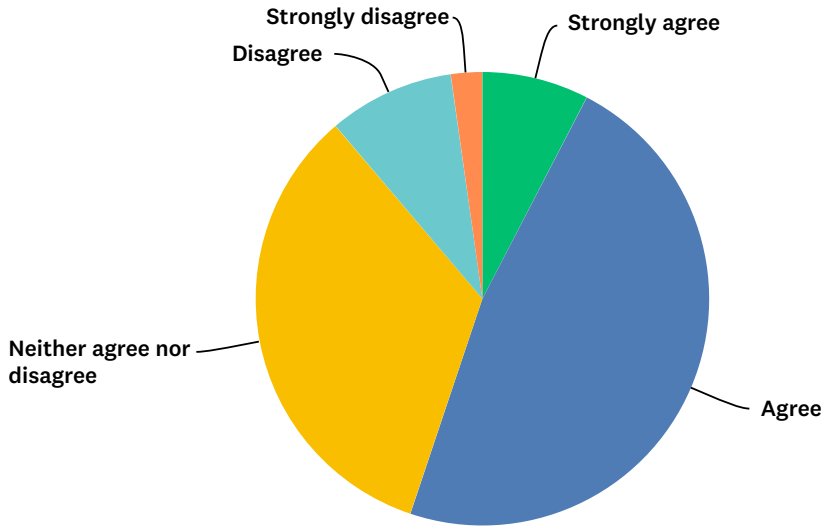


ANSWER CHOICES	RESPONSES	
Strongly agree	8.97%	20
Agree	39.91%	89
Neither agree nor disagree	34.98%	78
Disagree	11.21%	25
Strongly disagree	4.93%	11
TOTAL		223

VENDOR SURVEY

Q6 SCAG allows you enough time to respond to RFPs.

Answered: 223 Skipped: 0

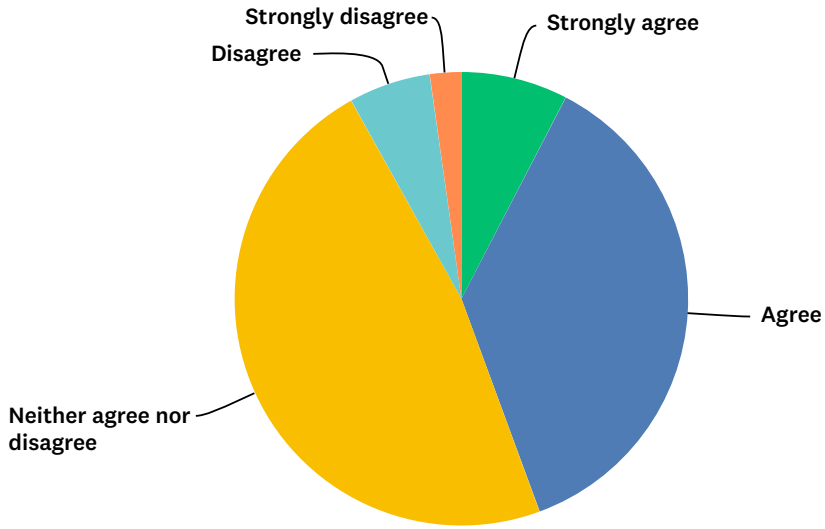


ANSWER CHOICES	RESPONSES	
Strongly agree	7.62%	17
Agree	47.53%	106
Neither agree nor disagree	33.63%	75
Disagree	8.97%	20
Strongly disagree	2.24%	5
TOTAL		223

VENDOR SURVEY

Q7 SCAG is responsive to your questions about the RFP.

Answered: 223 Skipped: 0

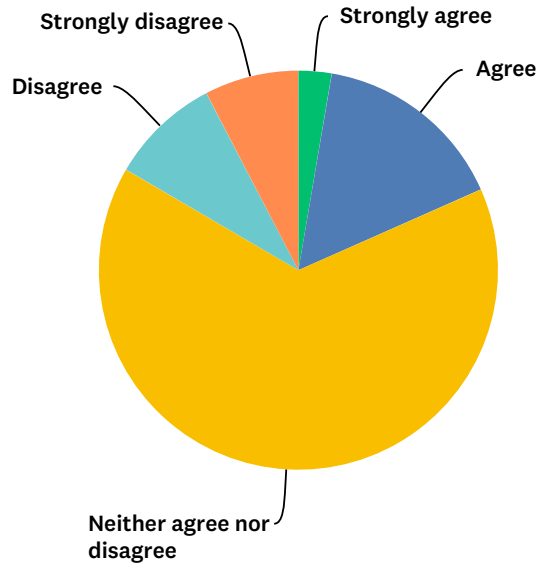


ANSWER CHOICES	RESPONSES	
Strongly agree	7.62%	17
Agree	36.77%	82
Neither agree nor disagree	47.53%	106
Disagree	5.83%	13
Strongly disagree	2.24%	5
TOTAL		223

VENDOR SURVEY

Q8 SCAG is responsive to your concerns about not being awarded the contract.

Answered: 223 Skipped: 0

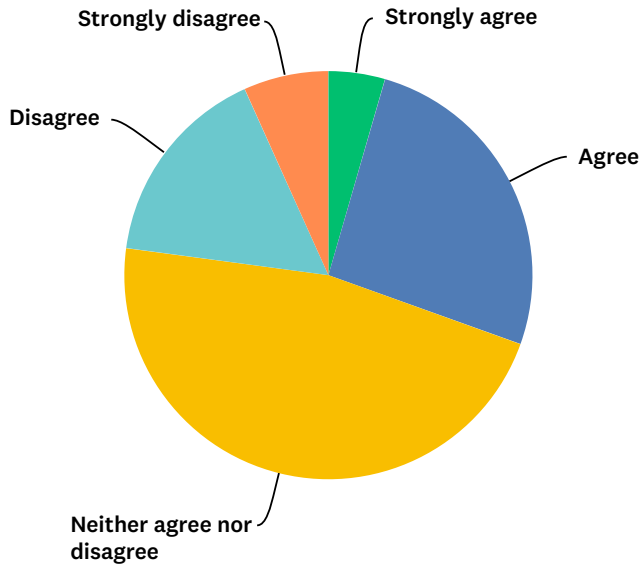


ANSWER CHOICES	RESPONSES	
Strongly agree	2.69%	6
Agree	15.70%	35
Neither agree nor disagree	65.02%	145
Disagree	8.97%	20
Strongly disagree	7.62%	17
TOTAL		223

VENDOR SURVEY

Q9 It is easy to comply with SCAG's contract template.

Answered: 223 Skipped: 0

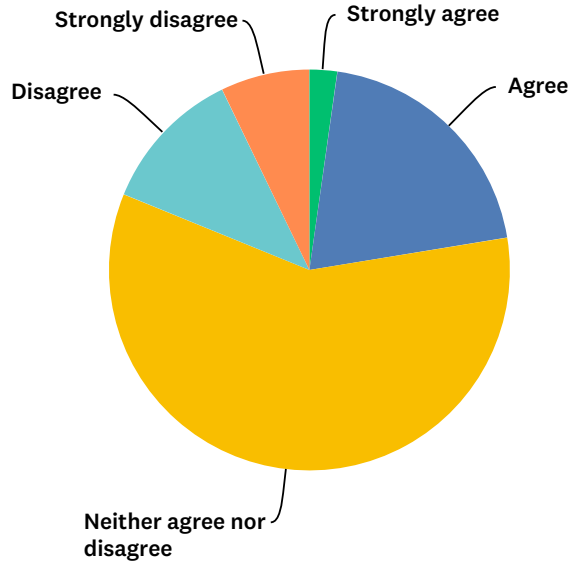


ANSWER CHOICES	RESPONSES	
Strongly agree	4.48%	10
Agree	26.01%	58
Neither agree nor disagree	46.64%	104
Disagree	16.14%	36
Strongly disagree	6.73%	15
TOTAL		223

VENDOR SURVEY

Q10 It is easy to comply with the pre-award review performed by SCAG's Internal Auditor.

Answered: 223 Skipped: 0

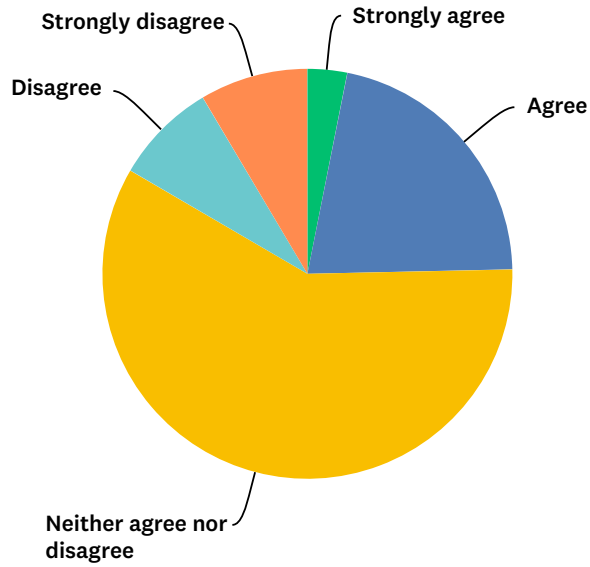


ANSWER CHOICES	RESPONSES	
Strongly agree	2.24%	5
Agree	20.18%	45
Neither agree nor disagree	58.74%	131
Disagree	11.66%	26
Strongly disagree	7.17%	16
TOTAL		223

VENDOR SURVEY

Q11 SCAG's requirements regarding contract amendments are not more cumbersome than other public agencies.

Answered: 223 Skipped: 0

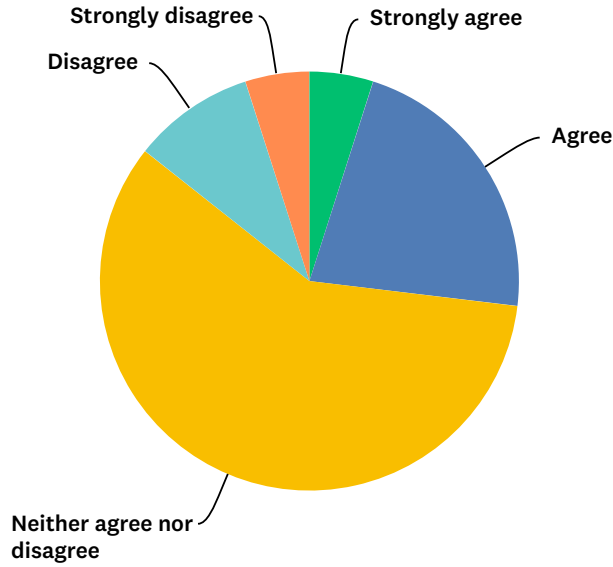


ANSWER CHOICES	RESPONSES	
Strongly agree	3.14%	7
Agree	21.52%	48
Neither agree nor disagree	58.74%	131
Disagree	8.07%	18
Strongly disagree	8.52%	19
TOTAL		223

VENDOR SURVEY

Q12 SCAG staff provide clear and consistent guidance for contract and invoicing issues.

Answered: 223 Skipped: 0

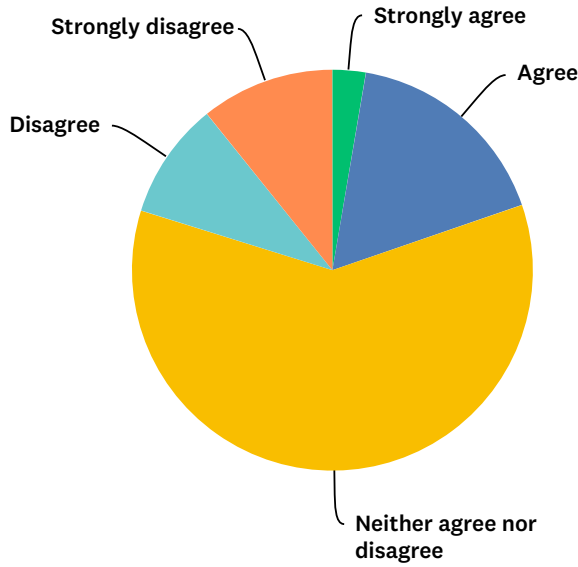


ANSWER CHOICES	RESPONSES	
Strongly agree	4.93%	11
Agree	21.97%	49
Neither agree nor disagree	58.74%	131
Disagree	9.42%	21
Strongly disagree	4.93%	11
TOTAL		223

VENDOR SURVEY

Q13 SCAG's requirements regarding invoicing are not more cumbersome than other public agencies.

Answered: 223 Skipped: 0

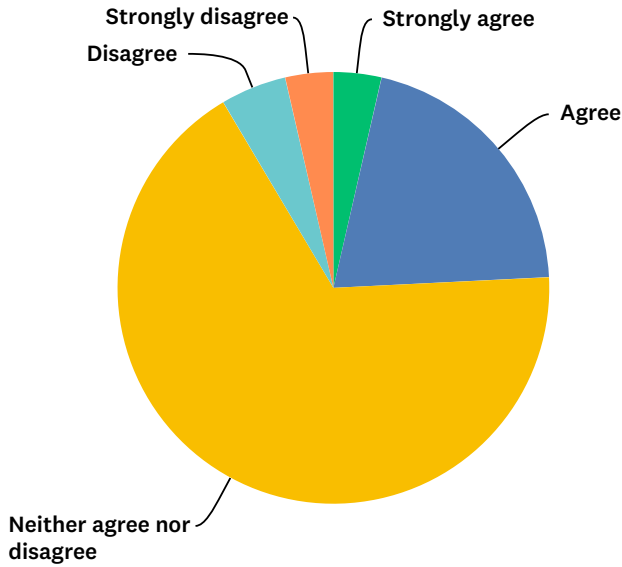


ANSWER CHOICES	RESPONSES	
Strongly agree	2.69%	6
Agree	17.04%	38
Neither agree nor disagree	60.09%	134
Disagree	9.42%	21
Strongly disagree	10.76%	24
TOTAL		223

VENDOR SURVEY

Q14 SCAG pays its vendors on a timely basis.

Answered: 223 Skipped: 0

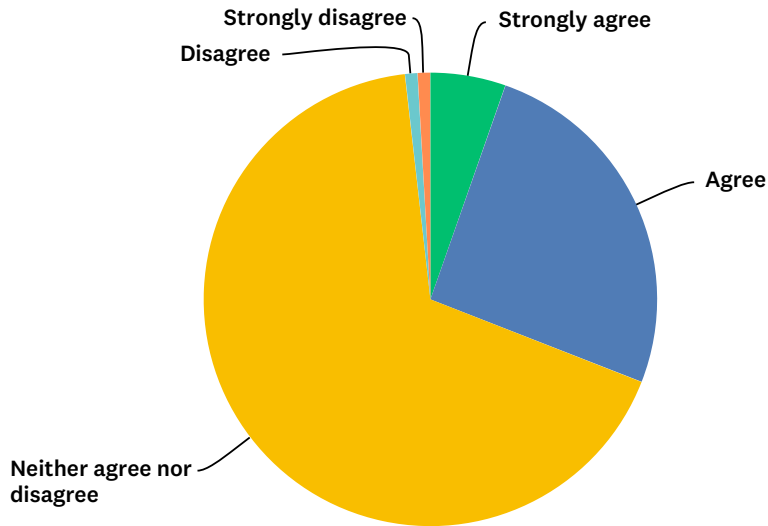


ANSWER CHOICES	RESPONSES	
Strongly agree	3.59%	8
Agree	20.63%	46
Neither agree nor disagree	67.26%	150
Disagree	4.93%	11
Strongly disagree	3.59%	8
TOTAL		223

VENDOR SURVEY

Q15 I am satisfied with the payment method SCAG uses (paper check or electronic payment).

Answered: 223 Skipped: 0

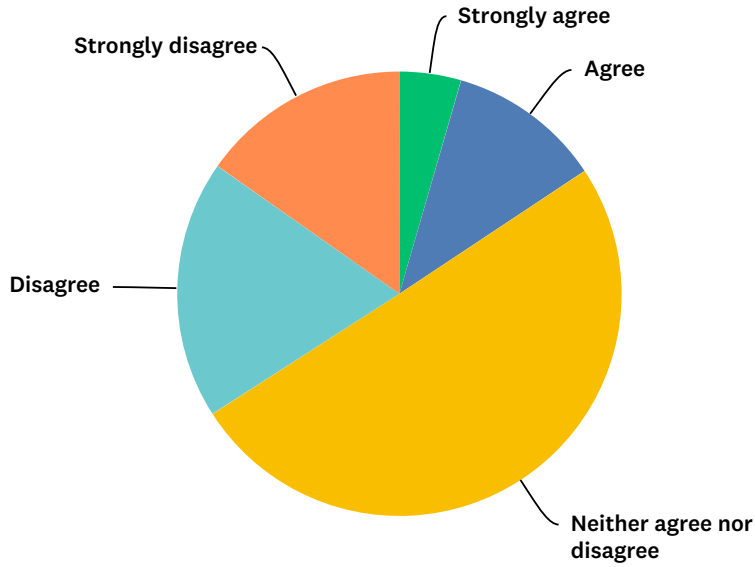


ANSWER CHOICES	RESPONSES	
Strongly agree	5.38%	12
Agree	25.56%	57
Neither agree nor disagree	67.26%	150
Disagree	0.90%	2
Strongly disagree	0.90%	2
TOTAL		223

VENDOR SURVEY

Q16 It is not more worthwhile to pursue contracting opportunities at public agencies other than SCAG.

Answered: 223 Skipped: 0



ANSWER CHOICES	RESPONSES	
Strongly agree	4.48%	10
Agree	11.21%	25
Neither agree nor disagree	50.22%	112
Disagree	18.83%	42
Strongly disagree	15.25%	34
TOTAL		223

VENDOR SURVEY

Q17 Please provide input on any other areas not covered by the survey questions.

Answered: 223 Skipped: 0

#	RESPONSES	DATE
1	none	4/18/2019 10:54 AM
2	While we have not experienced major difficulties with SCAG, reviewing contracting and simplifying procedures is always a good idea.	4/17/2019 3:27 PM
3	Nothing to add.	4/17/2019 8:07 AM
4	Please share feedback to vendors on their submissions	4/16/2019 10:10 PM
5	N/A	4/16/2019 7:55 PM
6	None	4/16/2019 5:12 PM
7	I have not submitted to a SCAG RFP in my current role so cannot provide much insight. As a marketer, I do appreciate the effort to gather information about the RFP/Q process.	4/16/2019 11:04 AM
8	Due to the cumbersome process and procedures of working with SCAG, we (as a small firm of 10-15 employees) will probably not be pursuing many more SCAG RFPs. The amount of admin time needed to even administer a SCAG project eats up too much time and project budget. It is very very difficult overall, and that is what I am hearing from most other small-medium sized firms I have spoken with.	4/16/2019 10:26 AM
9	none	4/16/2019 8:53 AM
10	i hardly ever receive notifications from scag for new work	4/16/2019 8:15 AM
11	Have not had a SCAG Project	4/16/2019 8:15 AM
12	Not applicable	4/16/2019 7:51 AM
13	We're a startup so of course some of the requirements are going to be hard for us to comply with. I think SCAG could get around this by having some innovation-specific programming allowing them to capitalize on innovation without being cumbersome or taking on too much risk.	4/16/2019 7:28 AM
14	nope	4/16/2019 12:18 AM
15	No other comments . I always enjoy working with the SCAG staff. Everyone is very communicative and professional.	4/15/2019 11:04 PM
16	none	4/15/2019 10:26 PM
17	Insurance requirements for sub-contractors (sub-consultants to primes) is TOTALLY unreasonable and unrealistic. As a sole proprietor DBA...the automobile insurance requirements would require me to purchase additional insurance that equals at least half of the revenue that I would bring in on "said contract" over a 1-2 year period...totally NOT worth it. You need to realistically review the specific contract and the actual WORK entailed, and THEN determine insurance requirements based on actual RISK.	4/15/2019 9:50 PM
18	Not sure what to add	4/15/2019 9:32 PM
19	N/A	4/15/2019 7:44 PM
20	x	4/15/2019 7:42 PM
21	We're a HVAC contractor how can we get RFPs.	4/15/2019 7:18 PM
22	I think I am not receiving RFPs.	4/15/2019 7:06 PM
23	None at this juncture	4/15/2019 5:06 PM
24	None	4/15/2019 4:58 PM
25	n/a	4/15/2019 4:31 PM

VENDOR SURVEY

26	If you haven't been awarded a contract through SCAG, then it is difficult to answer a bunch of the questions.	4/15/2019 4:06 PM
27	We are in telecom and data and there hasn't ever been a contract come up for that. I would like to know how those contracts get fulfilled if they are never put out for bid?	4/15/2019 4:01 PM
28	I have not used SCAG yet. Just registered	4/15/2019 3:59 PM
29	Nothing to add	4/15/2019 3:43 PM
30	No comment	4/15/2019 3:37 PM
31	None	4/15/2019 3:11 PM
32	.	4/15/2019 2:50 PM
33	We tried to respond to a planning and design RFP disbursing federal funds. The RFP was inadequately prepared because it misrepresented the requirements of obtaining an engineering/architectural design contract under federal guidelines. Under a grant to SCAG we would be a subcontractor who would not carry the same burden as SCAG in proving the cost of services. Yet you require the same which makes it impossible for a small company to compete with large contractors that have the internal auditing power to produce such documents and clearances. Normally this would not prevent us from submitting data. Our fees are highly competitive with large design firms because, as a small firm, we can work efficiently and reduce cost. Savings can then be retained to grow the company and pay working principals with pass through profits that truly reflects their fair income from which they cover their "benefits" external to company accounting. Your required accounting practice creates a huge advantage for large firms that can show high hourly salaries, massive benefits, and high overhead for bonuses, company vehicles, and lavish offices. If we save money and work efficiently you become the sole beneficiary of these savings whereas large companies are rewarded for their spending and can justify higher fees. Your requirement is that upon an audit of our finances we would have to pay back fees received if your audit shows lower actual cost -- regardless if such fees are entirely reasonable within the context of commonly accepted standards. That allows you to reduce our fees arbitrarily, after the fact. Signing a contract with you could conceivably result in the burden to pay back fees years after the work has been completed. Undoubtedly some will sign your paperwork without understanding what it really means, ultimately risking to send their company into bankruptcy. I am not saying that this is what you are trying to do. But your required paperwork makes this possible. So if you ever ask yourselves the question why you cannot retain small efficient consultants that are connected to your local community -- here is the answer: only fools would sign the dotted line. What can be done? You need to understand what is really required. When you hire an engineering/design consultant and you are the recipient of a federal grant you are the prime contractor and they are the subcontractor. You are not required for them to show the same level of accounting that you fall under. You only have to make sure that cost is reasonable. Your statutes for contracting and your RFP language was written by someone who does not understand this. You need to review your statutes and change requirements, where applicable, so that you can receive truly competitive contractors instead of putting up insurmountable hurdles.	4/15/2019 2:19 PM
34	Invoicing requirements do seem to have evolved over time and consultants are not always informed by SCAG as to the reason or the fact that there has been a change in the requirement, which can impact the timeliness of payment as we revise invoices to meet changing requirements.	4/15/2019 2:15 PM
35	Sometimes the scope of work is fairly broad, leading to the possibility of different levels of effort. This may make the comparisons between proposals very difficult. This is further compounded if a high degree of the weighting is based on price. It would be appreciated if more guidance is provided at the pre-proposal meeting stage. This would allow respondents to provide a better proposal and SCAG to have proposals with similar level of effort assumptions.	4/15/2019 2:04 PM
36	.	4/15/2019 2:04 PM
37	none	4/15/2019 2:00 PM
38	n/a	4/15/2019 1:53 PM
39	N/A	4/15/2019 1:36 PM
40	Requests do not match our capabilities (digital and traditional graphic artist illustration including realistic and painterly styles for food, people, products, maps, technical & medical, and scenics.	4/15/2019 1:36 PM
41	It has been a while since our firm has submitted to SCAG due in part to the agency not needing the services offered by our firm. This makes it very difficult to provide valuable input.	4/15/2019 1:32 PM

VENDOR SURVEY

42	good job most areas cover	4/15/2019 1:25 PM
43	RFP scope understandability and definition varies. Time to respond to RFP is adequate. Disallowing hours from people not previously approved, even low-wage employees, is a problem.	4/15/2019 1:20 PM
44	No input.	4/15/2019 1:08 PM
45	NA	4/15/2019 1:05 PM
46	n/a	4/15/2019 1:02 PM
47	None.	4/15/2019 12:57 PM
48	My firm once bid on a project. The original evaluation sheets showed that we were the clear winner. Those evaluation sheets were changed and the project awarded to a firm less qualified than ours. We protested and were told by the executive director and his lawyer "too bad" we have the right to change evaluations. It was a corrupt process	4/15/2019 12:54 PM
49	please make contracting easier.	4/15/2019 12:46 PM
50	I wish I could provide more focus to the opportunities I receive. Most are way to broad for our expertise.	4/15/2019 12:45 PM
51	It seems SCAG only favors certain vendors. Therefore many companies stay out and do not bid since it is a waste of time.	4/15/2019 12:45 PM
52	N/A	4/15/2019 12:41 PM
53	It may be necessary to lower the requirements for DBE/SBEs, and make it easier and faster to get work going; and to allow DBE participation in all contract opportunities, or perhaps create opportunities for DBE/SBE only.	4/15/2019 12:37 PM
54	Expansion of Answers: Q6--Most of the time (not always) enough time allowed. Should be commensurate w/ job size and # of disciplines needed. Q7--When no one asks questions, it'd be nice if, just after the questions deadline has passed, there could be a posting stating that there were no questions. (A couple of times when we asked questions, the Q&A posting was late by a day or 2; so now, if we didn't ask questions, we wonder if we should keep checking just to be sure.) Oftentimes, we must wait for Q&A to determine if/which subs to bring on; this also means it's important to have ample time AFTER we see Answers since that's when the real work can start--first ID'ing team members as this so often is dependent on the Answers. Q9--Working w/ LIB template is ok but having space for 1 level of subtasks would be helpful (but not critical). Also, the template is now locked down, but there are a number of errors in it (not related to formulas). Just one example: when we complete it, we cannot see the totals because the columns are not wide enough to hold so we can only see X's. This creates a problem, so we've had to take extra time to copy the spreadsheet out into a new document just to be able to see what it's doing. Another example: some of the variable fields (those that are different with every proposal) are locked down and shouldn't be. Qs 10-16--I am the Marketing Manager (head wrangler, quals writer, final reviewer) and prepare along w/ technical staff the proposal), so I can't really respond well to these contract-related questions. If you haven't already, you might consider sending this survey to our Contracts Manager; her email address is kkosel@placeworks.com. Thank you so much for sending out this thoughtful survey! :)	4/15/2019 12:33 PM
55	None	4/15/2019 12:29 PM
56	We strictly provide media planning and buying services as well as Radio and TV creative but have not received any opportunities to bid on such work.	4/15/2019 12:19 PM
57	I've reviewed your RFP's - have not applied for any contracts yet.	4/15/2019 12:15 PM
58	Don't know what agencies use SCAG	4/15/2019 12:13 PM
59	No other "areas"	4/15/2019 12:13 PM
60	Responses are predominantly neither agree nor disagree because of our limited experience and knowledge of SCAG contracts and procedures.	4/15/2019 12:12 PM
61	Other agencies easier to respond to. Tend to feel SCAG has "pre-determined legacy" vendors	4/15/2019 12:08 PM
62	thank you	4/15/2019 12:05 PM
63	na	4/15/2019 12:03 PM
64	N/A	4/15/2019 12:01 PM

VENDOR SURVEY

65	SCAG's invoicing requirements and the pre-award review tend to be the biggest hurdles. It tends to be especially burdensome on smaller firms, which limits potential partnership and sub-contracting opportunities.	4/15/2019 12:00 PM
66	I haven't really bid on much or dealt with SCAG, so I would throw out my response. Just FYI	4/15/2019 11:56 AM
67	Don't have any.	4/15/2019 11:56 AM
68	Nothing	4/15/2019 11:56 AM
69	N/a	4/15/2019 11:55 AM
70	Please note that (1) I have never bid on SCAG projects as a prime, only as a sub. (2) I just started work on my first-ever SCAG project last month, so my billing/invoicing history is not long enough to form much of an opinion.	4/15/2019 11:55 AM
71	I don't have any at this time	4/15/2019 11:51 AM
72	na	4/15/2019 11:51 AM
73	Doing this since 2001, never given timely notice of opportunities.	4/15/2019 11:48 AM
74	No	4/15/2019 11:48 AM
75	None	4/15/2019 11:48 AM
76	SCAG invoicing is the most burdensome of all agencies n my experience. it is not welcoming to SBEs in terms of the extra work required to comply with your accounting requirements. Your invoicing requirements require most small businesses to hire a specialist to work through your invoicing.	4/15/2019 11:48 AM
77	We have never pursue any of SCAG's RFP's.	4/15/2019 11:44 AM
78	N/A	4/15/2019 11:43 AM
79	no comment	4/15/2019 11:43 AM
80	I wish the contract encouraged participation from public universities in California	4/15/2019 11:41 AM
81	Since we were not awarded work and/or the project was cancelled, I do not have direct relevant experience to answer many of the contracting questions.	4/15/2019 11:41 AM
82	NONE	4/15/2019 11:40 AM
83	none	4/15/2019 11:40 AM
84	Na	4/15/2019 11:40 AM
85	Why are Qs 13 and 16 worded so obliquely? Also: I strongly disagree with SCAG's policy of not putting guidance about project budgets in its RFPs. For things where there are easily established market rates, like toilet paper or office supplies, I can see it, but for professional services where there are many alternative ways to approach a project, then you are doing everyone a disservice by being coy about how much you expect to pay for a project. Do your homework!	4/15/2019 11:39 AM
86	I'm a GIS Vendor. This is an emerging technology that is difficult to include in an RFP. More inclusion for GIS as part of SOW and assistance on responding for GIS work.	4/15/2019 11:39 AM
87	awards go to those that have insight to your Technical staff.. They seem to get a jump on other bidders..	4/15/2019 11:37 AM
88	We work directly for cities, school districts, colleges. I don't understand what you guys do.	4/15/2019 11:36 AM
89	previous 2 efforts were a total waste of time - very disappointing	4/15/2019 11:36 AM
90	NONE	4/15/2019 11:36 AM
91	I haven't bid on any projects.	4/15/2019 11:35 AM
92	n/a	4/15/2019 11:34 AM
93	We are an east coast firm that had worked for BLM in the San Bernardino County area and wanted to continue working on similar types of projects, but have yet to pursue anything	4/15/2019 11:34 AM

VENDOR SURVEY

94	Very unresponsive employees when asking for details on RFP or any other requests. I feel that the whole organization has become extremely bureaucratic and benefits only larger companies offering what we, as a very small company, offer. It used to be easier and beneficial for both parties.	4/15/2019 11:34 AM
95	None	4/15/2019 11:33 AM
96	No additional comment.	4/15/2019 11:33 AM
97	Na	4/15/2019 11:31 AM
98	It appears that many of the awards are predetermined for a particular vendor.	4/15/2019 11:31 AM
99	none thank you	4/15/2019 11:30 AM
100	no input	4/15/2019 11:30 AM
101	n/a	4/15/2019 11:30 AM
102	n/a	4/15/2019 11:29 AM
103	innovative projects and project types are great, but unless we can all get equally oriented to them ahead of time, it seems like someone else will have an inside track.	4/15/2019 11:29 AM
104	none	4/15/2019 11:29 AM
105	Vendors from different States should also get chance to perform on the task orders under any contract. We have one contract with SCAG and out of 13 TO's, we've won only one and on that TO, we've been performing since 2 years with no complaints from the client site.	4/15/2019 11:28 AM
106	I actually pass on RFPs to consultants . . . I have retired my firm however still pass on consultant work without pay . . thank you	4/15/2019 11:28 AM
107	Most of the contracts issued by SCAG don't necessarily have geotechnical scopes of work involved; therefore, we are not often on teams preparing proposals.	4/15/2019 11:27 AM
108	n/a	4/15/2019 11:27 AM
109	We have exclusively served the role of subconsultant on SCAG contracts making many of the questions once removed from our ability to answer.	4/15/2019 11:26 AM
110	Need to provide quick feedback in regards to positions submitted to California government. Submitted need to at least telephonic screening first and second round should be in person if they are interested with consultant to hire.	4/15/2019 11:26 AM
111	Your agency outta service bad for small biz. U are only looking for large primes like everyone else. If want to fix thing the. Actually solicite to small biz and hell with large primes.	4/15/2019 11:26 AM
112	nothing more for now	4/15/2019 11:24 AM
113	Would love to bid and had hoped more projects in our business area (software consulting) would be available. Will continue to try.	4/15/2019 11:24 AM
114	I've been told it is impossible to get off this list, despite the fact that I have now completely retired and asked to be removed. That seems remarkably inefficient.	4/15/2019 11:24 AM
115	None	4/15/2019 11:22 AM
116	n/a	4/15/2019 11:22 AM
117	None	4/15/2019 11:21 AM
118	No additional input.	4/14/2019 6:25 AM
119	none	4/13/2019 5:15 PM

VENDOR SURVEY

120	We have received and read SCAG proposals. We have not submitted to SCAG because most agencies already know who they want and the proposal is just a formality or loop that is required by law. For most agencies, the proposal process is not a selection process. For example, we have an 8 million dollar contract with the California High Speed Rail and a two million dollar contract with the California Waterfix for surveying and right of way mapping. Our contract with the High Speed Rail began as a \$3M and expanded over time to \$8M due to the quality and responsiveness of our work. Riverside County Transportation Commission (RCTC) issued an on-call right of way and surveying contract. RCTC determined that we were not qualified to clean the restroom. So unless we have time to do the political marketing in advance of the RFP, we don't submit. SCAG may be different, but we don't know that. We do appreciate the survey.	4/11/2019 12:55 PM
121	We would like to do work for SCAG, but we have not.	4/10/2019 8:43 PM
122	N/A	4/10/2019 2:42 PM
123	Pursuing opportunities listed on SCAG is often a waste of time and money. We have the strong belief that 'insiders' are awarded contracts and that new and/or little-known firms are at a strong disadvantage.	4/10/2019 9:39 AM
124	There is no cultivation of vendors who have performed well but have small marketing staff. SCAG seems to really be for the big firms.	4/10/2019 9:28 AM
125	sdkfnstdnsd	4/9/2019 4:47 PM
126	The contract staff has not been helpful in explain the way to complete standard forms, giving answers like, "do your best" and "the instructions are there." This isn't helpful for small businesses that are not experts in public contracting. We can do what is expected if it was clearer.	4/9/2019 3:55 PM
127	SCAG provides good guidance throughout the contract	4/9/2019 2:03 PM
128	Because we only do Noise and Vibration most of the contract require much effort for use to be seen as a subcontractor. Therefore we do not pursue work we know we could save money for SCAG	4/9/2019 12:33 PM
129	n/a	4/9/2019 12:26 PM
130	As a solo proprietor, it is difficult to win SCAG contracts without being a sub-contractor.	4/9/2019 12:11 PM
131	It is extremely difficult working with SCAG. The RFPs are usually not well written, once a project is awarded, it takes a very long time (months) to get a contract, SCAG invoicing and progress report process is extremely time consuming, costing a great amount of staff time that could be better spent on project work, guidance from SCAG PMs varies between SCAG PMs (given different direction from two different SCAG PMs, even on the same project), SCAG takes months to pay invoices, and it is extremely hard to make any changes to SOW even when for the benefit of the client city/county.	4/9/2019 11:33 AM
132	No other input to offer	4/9/2019 6:55 AM
133	It takes a team to respond to what one man can and should be able to doI should not have to hire 4 people to go after govt contracts	4/9/2019 5:52 AM
134	none	4/9/2019 1:41 AM
135	As a small business, working with SCAG has been challenging because of invoicing requirements, very long payment timeframes, etc. Other local and regional agencies are supportive of small businesses. Working with SCAG project managers is wonderful and SCAG projects are wonderful and special. It is the invoicing, audit department, and payment systems that are unfriendly to small businesses.	4/8/2019 11:18 PM
136	Provide a way to stop emails re bidding for SCAG work. I was a contractor to SCAG 2-3 decades ago. I have no interest in RFQs or bid solicitations at this time, but cannot unsubscribe or block emails. Please provide that option.	4/8/2019 10:58 PM
137	Suggest that SCAG consider adding a pre-screening process of potential contractors specific and verifiable qualifications, competencies and successful related projects. Would help to advance a process of pre-screening and identifying pre-qualified firms. Good luck!	4/8/2019 10:09 PM
138	N/A	4/8/2019 9:36 PM
139	None	4/8/2019 8:02 PM
140	Sorry I could not provide more information	4/8/2019 8:01 PM

VENDOR SURVEY

141	We do understand the complexity of working with local jurisdictions through SCAG versus working directly with SCAG. Aligning SCAG goals with local jurisdictions can make RFPs more complex and we try to respond accordingly.	4/8/2019 8:00 PM
142	I don't know why I am filling out this survey	4/8/2019 6:46 PM
143	Unfortunately, government bids are awarded on a price only decision. As a taxpayer, this is disappointing - as i see deteriorated equipment and lack of oversight of the vendors awarded jobs. I also see vendors awarded business due to "small business", DV status, or microbusiness. This is not always true, as many larger businesses just run a bid through a company or person that can claim that status. This defeats the purpose of that clause and is disappointing that it is allowed. The awards we have received were on RFP's, not RFQ's. We have won performance awards, water savings awards and energy savings awards for our government customers - and their equipment inspections are outstanding.... so we are providing value through savings, asset life management, and reduced costs (such as heat transfer efficiency, etc). Our customers save money by writing performance based bids that are evaluated based on the exact type of equipment they want to be used and results they expect to see. Bids are awarded points for a vendor's compliance to the request and the results that they can achieve. This type of bid is much better for both the site and the taxpayers. Awarding business to a low cost supplier is a terrible way to do business and all the government needs to do is change how they write their bid so that they get good results.	4/8/2019 6:40 PM
144	Requirements for build up of labor hours from direct costs precludes us from working with SCAG most of the time.	4/8/2019 5:46 PM
145	I did not understand what question 16 was asking.	4/8/2019 5:21 PM
146	I like the location of SCAG's new office.	4/8/2019 5:16 PM
147	RFPs are generally well-written and easy to follow. Awards of contract we don't get do not show up on the website for several months; so difficult to know if anything has been awarded or not. Pre-award review is cumbersome and overly picky. Invoicing has very cumbersome requirements that do not make sense for small contracts. I get it for a \$500k contract, but not for a \$30k contract which requires several hours to do an invoice.	4/8/2019 4:33 PM
148	NA	4/8/2019 3:52 PM
149	United Imaging was a previous vendor for SCAG for various printer imaging supplies for more than 10 years. We have not been invited to bid on any office supply, or toner, ink, or equipment related items in more than 3 years. When asked if we are still on Bid/vendor list, I am told yes, but have not received any RFP or Bids to participate in. Wondering if these type of commodities are not part of an actual bid process any longer.	4/8/2019 3:18 PM
150	N/A	4/8/2019 3:03 PM
151	Appreciate asking for input	4/8/2019 2:55 PM
152	Since i have worked with SCAG before it is a great organization to work for.	4/8/2019 2:51 PM
153	SCAG delves more into the business practices of its contractors than any other contractor, including the State of California, other than the federal government. In attempting to somehow control costs by pursuing the details, SCAG is more likely to drive away bidders, and incent other bidders to find ways around SCAG's audit review in a manner that drives up SCAG's overall costs.	4/8/2019 2:46 PM
154	I was a consult to SCAG in the late 80s thru the 90s, but I am no longer interested in being involved. Please remove my firm from you mailing list. Thank you, Dennis Flanzer, Dennis Flanzer Associates, Inc.	4/8/2019 2:26 PM
155	I'm a marketing and proposals coordinator for an environmental consultant. We often incorporate and cite SCAG reports and GIS data in our land use planning and conservation research and environmental studies.	4/8/2019 2:26 PM
156	your contract process is really cut for a standard model of consulting practice makes it harder for unconventional practices/small practices to pursue work.	4/8/2019 2:21 PM
157	Response time is incredibly slow. Had to re-bid on two occasions. Lots of work with no results and no actionable feedback. Likely will not bid again.	4/8/2019 2:15 PM
158	.	4/8/2019 1:48 PM
159	Procurement notice information	4/8/2019 1:47 PM

VENDOR SURVEY

160	N/A	4/8/2019 1:46 PM
161	I would appreciate the opportunity to provide an Architectural, Structural or M,P,E type projects. My firm has over 50 years of experience in southern California. GV Salts cell number 951/377-6009	4/8/2019 1:41 PM
162	SCAG has been a nightmare administratively to work with. The invoicing and contracting people are difficult, give confusing and sometimes conflicting instructions, and are extremely inflexible on even the most menial items. We won't work with SCAG again until there is a wholesale overhaul of how SCAG works, and treats its consultants with respect, timeliness, and competency.	4/8/2019 1:33 PM
163	N/A	4/8/2019 1:23 PM
164	Our firm has been "awarded" however it has been over a year since we have received further information.	4/8/2019 1:17 PM
165	/	4/8/2019 1:13 PM
166	SCAG's lack of providing available budget information (even rough ballparks) as part of the RFP has resulted in the submittal of scopes that are wildly above what is available. SCAG's tight control over project staffing and the ability to easily use different staff (to achieve the best project results) throughout the life of the project is very challenging, and overly restrictive. SCAG's requirement to submit timesheets (showing all staff time -- on SCAG project and on non-SCAG projects, as well as paystubs and the like) places a very high, and unique to SCAG, administrative burden on the contractor. SCAG is very unique is the very high administrative burden its processes place on completing work for SCAG.	4/8/2019 1:09 PM
167	Our firm does extensive work in local government. Our experiences in bidding for work at SCAG have been negative, not because we didn't win the contracts, but we were treated in a demeaning manner both during the orals and when we asked for feedback. After trying several times, have no desire to waste our firm's capital in bidding on work at SCAG.	4/8/2019 1:09 PM
168	Inconsistent billing and invoices guidance and procedures within contract periods can become incredibly cumbersome for a small firm to deal with, especially when communications or requests for corrections may include a lag time of months, resulting in payment delays in excess of 6 months. Given these types of issues, we understand why some firms no longer bid on SCAG RFPs.	4/8/2019 1:07 PM
169	I stopped pursuing SCAG contracts several years ago. My company has been around for three plus decades and has pursued and won hundreds of government contracts throughout the Western United States. We currently have upwards of 10 government contracts. Years ago I won a SCAG contract as a subconsultant. After the award recommendation we were asked to update the scope of work, refine the budget and attend several meetings. After my firm completed all of that work the then-director of SCAG "removed" us from the prime's contract and instead awarded the work to a competing agency, that did not bid on the contract, and also happened to be where his wife was employed at the time. I called the SCAG director to confront him about this. He was evasive and claimed to know nothing about this and passed me on to a subordinate who was unhelpful and unwilling to review this further. These actions were unethical and are the principal reason my firm no longer pursues work with SCAG.	4/8/2019 1:04 PM
170	No further input.	4/8/2019 12:55 PM
171	n/a	4/8/2019 12:51 PM
172	no comment	4/8/2019 12:50 PM
173	Difficulty with contract negotiations or applying changes in staffing to an existing contract have made it hard for our company to comply with SCAG's policies. This has deterred us from bidding on new opportunities with SCAG despite qualifications and interest in bids.	4/8/2019 12:50 PM
174	Your RFPs are overly complex and long.	4/8/2019 12:49 PM
175	None.	4/8/2019 12:48 PM
176	no additional comments	4/8/2019 12:43 PM
177	Once a contract is awarded to multiple vendors, it should result in all vendors getting some of the work. They should use a rotation system to be fair to all vendors who have worked hard to write a quality proposal to win a piece of the contract.	4/8/2019 12:40 PM
178	n/a	4/8/2019 12:29 PM

VENDOR SURVEY

179	RFPs are usually very cumbersome to sift through and the amount of required forms daunting so we tend to not pursue that often due to workload	4/8/2019 12:28 PM
180	No comment	4/8/2019 12:25 PM
181	I have not heard from you in awhile.	4/8/2019 12:25 PM
182	Scag makes proposing difficult because no budgets are published, an no look ahead is provided. we need to know the order of magnitude to know if a company's size is appropriate for the size of the project. It is also very discouraging to propose because SCAG dictates billing rates, limits profit mark up, and does not allow CCOs even when the scope is shifting, especially when local agencies are in charge of the scope. Lastly SCAG disallows time charges too liberally and wrongly. It is a sure thing that a reasonable block of hours will get rejected for an unfair reason. With limits on overhead and profit, it is a sure thing that virtually every SCAG job will result in a loss.	4/8/2019 12:22 PM
183	SCAG needs to be more flexible in contracting. As consultants our goal is to deliver the product to the clients satisfaction. Quite often contracts do not start as advertised and our proposed staffing resources may need be shuffled. We should have the flexibility to use whatever staff we have available to complete tasks and the project. As private companies, we are mindful of the bottom line. As long as SCAG and the local agency are satisfied with the final product, we should be left alone to do it as we choose.	4/8/2019 12:20 PM
184	na	4/8/2019 12:19 PM
185	Scag has a history of playing fast and loose with budgets	4/8/2019 12:18 PM
186	none	4/8/2019 12:16 PM
187	none	4/8/2019 12:15 PM
188	NA	4/8/2019 12:14 PM
189	I have yet to answer an RFP, so I cannot be of much help on this survey. Sorry.	4/8/2019 12:14 PM
190	NA	4/8/2019 12:12 PM
191	Communication about the status of vendor selection could be enhanced with regular communication when the selection process is delayed.	4/8/2019 12:11 PM
192	The detailed breakdown of budgets by dribble, overhead etc is very cumbersome. Most public agencies we work for simple ask for fixed price or fixed price by task.	4/8/2019 12:09 PM
193	Our contracts are in combination with other agencies and SCAG.	4/8/2019 12:08 PM
194	--	4/8/2019 12:08 PM
195	Classification notification is poor. Such as for anything related to a natural gas refueling station	4/8/2019 12:07 PM
196	I represent an architectural firm and don't think we've ever responded to an RFP from SCAG.	4/8/2019 12:07 PM
197	N/A	4/8/2019 12:05 PM
198	No additional input.	4/8/2019 12:04 PM
199	We have not done any work through SCAG so were unable to provide meaningful feedback.	4/8/2019 12:04 PM
200	Frustrating for DVBE to win awards	4/8/2019 12:04 PM
201	Although SCAG is a very good agency and among the best probably in SoCal - SCAG as a client has a really bad reputation (and maybe the worst as per what I hear from clients as I have never done any work there) in that it is a rigid client / many primes avoid even proposing on SCAG work / there is no consideration for small businesses what so ever	4/8/2019 12:02 PM
202	.	4/8/2019 12:01 PM
203	For companies that have never received a contract through SCAG the majority of the questions are not relevant.	4/8/2019 11:58 AM
204	none	4/8/2019 11:57 AM
205	Our professional experience with SCAG is that the staff have no intention on looking at better solutions. They have no intention or inclination on meeting vendors who might have superior products to offer.	4/8/2019 11:57 AM

VENDOR SURVEY

206	Never knew SCAG sends RFQ out and haven't had a chance to review them.	4/8/2019 11:57 AM
207	The need to have vendors split out their hourly rates by base rate, direct overhead, and indirect overhead is unnecessary and prevents many vendors from bidding.	4/8/2019 11:57 AM
208	I haven't participated in any scag Bids.	4/8/2019 11:56 AM
209	I am a small DBE/WBE/SBE/LBE and I find it hard to stay aware of SCAG RFPs, difficult to compete with larger firms and difficult to develop responsive RFPs with such limited guidance on budgets, award criteria and project priorities. I've received no useful feedback on previous bids or work with SCAG.	4/8/2019 11:56 AM
210	n/a	4/8/2019 11:56 AM
211	SCAG contracting is so terrible that my organization and many others are not interested in even bidding. After taking an entire year to come to agreement on contract terms, SCAG does not allow those same terms to be used in another contract between the two parties. I've had to walk away from more than 1 awarded SCAG projects because of contracting issues. This is a major issue and I appreciate this survey but there's going to need to be an entire overhaul of the process in order for SCAG to get bids from the high-quality consultancy community in the LA region.	4/8/2019 11:55 AM
212	True or not, the perception of working for your agency is that it is an insider's game. We typically rank in the top 5 in the LA basin and we have never shortlisted at SCAG. We quit submitting years ago.	4/8/2019 11:55 AM
213	To my knowledge everything is covered Thank You	4/8/2019 11:55 AM
214	None	4/8/2019 11:54 AM
215	None.	4/8/2019 11:54 AM
216	We have a specialized product so the potential for bidding is somewhat limited.	4/8/2019 11:53 AM
217	I no longer pursue contracts with government agencies because they have been extremely hard to obtain for very small minority/women-owned businesses.	4/8/2019 11:52 AM
218	I do not feel that SCAG is truly interested in working with the very small SBE. My firm, is a one person, certified SBE. I do not feel that SCAG wants to do business with my firm.	4/8/2019 11:52 AM
219	The RFP process is still cumbersome and difficult. Improved slightly, but not significantly.	4/8/2019 11:51 AM
220	Have not found any SCAG work applicable to our business so have not completed a bid nor been awarded a bid so the "neither agree nor disagree" responses are based on lack of experience with those areas	4/8/2019 11:50 AM
221	N/A	4/8/2019 11:49 AM
222	none	4/8/2019 11:49 AM
223	it would be nice to meet in person at some point during the process	4/8/2019 11:49 AM

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Southern California Association of Governments
900 Wilshire Boulevard, Suite 1700, Los Angeles, California 90017
October 23, 2019

To: Audit Committee (AC)

EXECUTIVE DIRECTOR'S
APPROVAL

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

Subject: Invoicing Review

RECOMMENDED ACTION:

For Information Only – No Action Required

STRATEGIC PLAN:

This item supports the following Strategic Plan Goal 7: Secure funding to support agency priorities to effectively and efficiently deliver work products.

EXECUTIVE SUMMARY:

Internal Audit conducted a review of the invoicing process and found that current practice is not aligned with existing guidance as well as more clarity regarding roles and responsibilities would be helpful.

INTRODUCTION:

SCAG enters into contracts with a variety of consultants and vendors to help carry out its planning work. Consultants and vendors submit invoices to SCAG for payment of goods or services rendered. The invoicing process involves multiple steps, but primarily involves Accounting staff, who process consultant invoices and maintain invoice records, and project managers, who approve/authorize payment. SCAG aims for timely payment of consultant/vendor invoices—usually within 30 days after receiving a complete invoice. Staff have indicated that invoices have been returned by accountants and have required revision/resubmission prior to payment. Also, staff have indicated to Internal Audit that it has been unclear why invoicing has been challenging for particular contracts as well as how to determine whether invoice costs are reasonable. Given that SCAG aims to pay consultants in a timely manner, there are some areas of improvement that could enhance transparency and consistency with regard to the invoicing process.

SCOPE AND METHODOLOGY:

This engagement’s focus was on gaining an understanding of SCAG’s invoicing process by comparing current practices with existing agency guidance (e.g. documented policies and procedures), and looking at invoice processing time frames. I consulted current guidance associated with the invoice

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process, and spoke with Finance and Planning staff to gain an understanding of invoicing practices (I spoke with planners because they are typically project managers for contracts with consultants).¹ For invoice processing time frames, I selected a random sample of 17 active contracts from SCAG's Financial Management System (FMS) and compared the date SCAG first received an invoice for work performed/product received with the date SCAG paid the invoice for each contract in the sample (the contracts in the sample are listed in Attachment 1).² I also looked at how many invoices were revised and resubmitted prior to payment. Overall, there were 142 invoices included in the comparison.

BACKGROUND:

SCAG has three manuals that discuss the invoicing process. These are the *Accounting Manual Policy & Procedures*, the *Procurement Policy & Procedures Manual*, and *Project Management Manual*.³ Consultants/vendors typically submit invoices by mail or e-mail (to SCAG's accounts payable e-mail address). The frequency of invoices depends on contract type.⁴ The general practice is that Accounting staff receives the invoices.⁵ Once received, the staff upload invoices to a folder on a shared drive. Accountants then review the invoices and can question or disallow costs. Following their review, accountants send the invoice along with the results of their review to project managers for payment approval/authorization.⁶ This approval/authorization usually takes the form of an e-mail. Accountants maintain an invoice log to track time frames related to invoices (e.g.

¹SCAG is in the process of reviewing and updating agency policies and procedures. The expectation is that guidance consulted as part of this review will likely change. Any findings resulting from this review can help inform potential revisions to the guidance.

²I ran a query of active contracts in FMS on August 8, 2019 and randomly selected 17. The number of contracts represents approximately 10 percent of all active contracts as of that date (the universe for the random sample totaled 165 contracts). Active contracts indicate that consultants/vendors currently submit invoices to SCAG. Some contracts were firm fixed price or labor hour contracts, so did not require monthly invoicing. For these contracts, consultants/vendor submit invoices only after completing certain work or products. Date received refers to the date stamped "received" on actual invoices submitted by mail or the date of a consultant/vendor e-mail of invoices to SCAG's "accounts payable" e-mail address. Date paid refers to the check date on the check remittance scan (which is included as part of the complete invoice package).

³SCAG, *Accounting Manual Policies & Procedures*, (May 18, 2017), *Procurement Policy & Procedures Manual*, (Revised Dec. 1, 2016), and *Project Management Manual*. The *Project Management Manual* did not have a date on the document.

⁴For instance, a cost plus fixed fee contract (which SCAG typically enters into with consultants) requires consultants/vendors to submit invoices by the last day of each month. Other types of contracts, such as firm fixed price, require consultants/vendors to submit invoices when milestones of a project are complete or they provide SCAG with a final product. An equipment purchase would likely result in a single invoice.

⁵This process mainly describes invoicing related to consultant invoices. For operations invoices (those related to direct purchases, such as equipment), invoices are sent directly to the project manager for approval/payment authorization rather than undergo a review by accountants.

⁶A project manager can be a planner or another type of staff. For the purposes of this report, project managers I spoke with were from Planning because most of the contracts in the sample were related to SCAG efforts carried out by planning staff.

aging), determine whether there are any issues with invoice costs, and identify which accountant performs invoicing for a contract, among other things. After the project manager approves an invoice/authorizes payment, the invoice amount is recorded in the accounting system. Accounting staff save complete invoice packages (which include the invoice, supporting documentation, and approvals, among other things) as PDF documents in a separate folder on the shared drive as well as upload them to an enterprise content management system.

RESULTS:

Existing invoicing guidance could use updating in that it does not fully align with current invoicing practices as well as SCAG contract language. Staff do not always know or understand the roles and responsibilities associated with the invoicing process, to include such things as compliance with contract terms as well as state and agency requirements.

Invoicing Guidance, Practices, and Contract Language

The *Procurement Policy & Procedures Manual* indicates that post award responsibilities of contract administrators include reviewing and approving consultant/vendor invoices to ensure that claimed expenditures conform to state and agency requirements. The *Accounting Manual* also states that Contracts staff are to review contract invoices in order to assess and judge that the invoices comply with contract terms and conditions. However, the *Project Management Manual* indicates that project managers review and approve invoices for payment, but only if all contract terms are being complied with. The *Project Management Manual* does not make it clear whether this review is in addition to the invoice review by Contracts staff (i.e. unclear whether project managers are responsible for reviewing invoices with regard to contract compliance or if they rely on a compliance review performed by contracts administrators). In practice, accountants have been reviewing invoices for compliance while seeking final payment approval/authorization from project managers.⁷ Finance staff noted it would be helpful if procedures for ensuring compliance were fully developed/implemented and defining what is meant by compliance (e.g. full compliance, which includes compliance with state and federal regulations). Planning staff indicated that they did not receive training regarding how to review consultant invoices. They also mentioned that they were unaware of the *Project Management Manual* or other guidance that outlines the responsibilities of a project manager with regard consultant monitoring, to include review of consultant invoices, as well as procedures for carrying out such responsibilities.⁸

⁷Although the *Accounting Manual* states that accountants shall review consultant invoices for accuracy and completeness, it also states that compliance with a contract's line item budget is a main item of oversight to be done by the Contracts department. The manual also states that no invoices can be paid until approved by the project managers and Contracts staff.

⁸Accounting staff created a list of invoice processing guidelines to assist accountants in their reviews. Nevertheless, the guidelines are somewhat limited in that they focus on contract's line item budget, and do not define what a complete invoice is or whether adhering to the guidelines ensures contract compliance.

As per the *Accounting Manual*, it is SCAG policy to pay all vendors by 30 days from the date of receipt of a complete invoice. However, the manual does not define what “complete” refers to (e.g. all necessary supporting documentation such as receipts for travel expenses or non-compliance with contract terms and conditions).⁹ Consultants can be required to re-submit and/or revise invoices based on issues identified by accountants prior to receiving payment. Some planning staff have noted that consultants they work with have regularly had to resubmit invoices prior to receiving payment, but were unsure as to why given that the identified issues were not overly clear (e.g. consultants were told to refer to contract requirements/contract language as to why an invoice was unacceptable). The planners also noted that the number of questions related to an invoice as well as the amount revisions/resubmissions depends on who is reviewing the invoice. This can lead to frustration for both planning staff and consultants because they want to make sure they are submitting the correct information so as to ensure prompt payment. Although most contracts in the sample include a section that describes the format and content of invoices (this is typically section 11 of a contract), there is no example or visual representation (e.g. invoice template) provided to consultants (either in the contract itself or separately). In addition, contracts do not indicate that payment will not be made/withheld unless invoices are complete (the contracts do note that payment of invoices will be withheld if quarterly progress reports do not include specific information). Finance and Planning staff have indicated that it would be helpful if SCAG implemented and used a common invoicing template and/or universal set of invoicing requirements because it would enhance transparency as well as ensure better consistency with how invoices are processed.

SCAG contract language requires that consultant invoice costs be reasonable, allocable and allowable under federal cost principles (this is typically section 33 of a contract). However, SCAG’s guidance does not clearly identify who is responsible for reviewing the invoices to ensure that invoice costs adhere to the cost principles (i.e. the costs are reasonable, allocable and allowable). As noted above, the *Procurement Policy & Procedures Manual* and *Accounting Manual* state that Contracts staff should be reviewing invoices to ensure compliance with contract terms and conditions, which could be construed as ensuring cost principles are addressed (since doing so is a contract requirement). However, the *Project Management Manual* indicates that project managers are to review invoices to ensure compliance with contract terms. In practice, and in lieu of current guidance, accountants have been reviewing invoices, to include whether invoice costs are reasonable, allocable, and allowable. Accounting staff said that they have received training related to cost principles, but it is unclear whether other staff, such as contract administrators or project managers have.¹⁰ As noted above, planners I met with said they did not receive training with regard to reviewing invoices. As such, when asked to review invoices related to the cost principles,

⁹Accounting staff raised the question that if an invoice is not complete, it would not be in compliance with contract terms. As such, compliance should be formally and clearly defined as well.

¹⁰At times, accountants have requested input from the Internal Audit department to determine whether invoice costs are reasonable, allocable, and allowable because it was unclear to them.

they rely on accounting staff's determination or, as accountants have indicated, simply approve invoices because work has been completed (not as whether contract performance is acceptable).

Invoice Timing

Accounting staff typically receive and review invoices prior to project managers. Planning staff mentioned that it would be helpful if they received invoices first, or at least at the same time as Accounting, so they could authorize or reject payment based on whether a consultant's work was satisfactory or not, thereby potentially minimizing time spent by accountants reviewing invoices.¹¹ Planning staff also noted that depending on the accountant assigned to the contract, time frames for reviewing invoices can vary. That said, since project managers are responsible for monitoring consultant progress, they should be aware of invoicing time frames and could reach out to consultants or Accounting staff to determine whether an invoice has been submitted.¹²

Invoicing Comparison

The sample of 17 active contracts resulted in 142 invoices. In comparing the date SCAG initially received an invoice by mail or e-mail (not the date of a revised or resubmitted invoice), SCAG paid approximately 46 percent (or 66 invoices) within 30 days while about 87 percent (or 123 invoices) were paid within 60 days, and approximately 13 percent (or 19 invoices) were paid after 60 days.¹³ Of the 142 invoices, approximately 18 percent were resubmitted or revised so as to be considered complete and eligible for payment, which Accounting thereafter posted to the accounting system.

¹¹It is unclear the extent to which invoices are rejected by project managers as none of the invoices from the contract sample appeared to be rejected by project managers due to performance-related issues. One planner said they have yet to reject payment based on un-satisfactory work. Another planner noted that some project managers may be reluctant to hold consultants accountable given demands such as tight time frames as well as not knowing what authority they have with regard to consultant monitoring.

¹²Consultant progress reports are included with invoices. If invoices are not received regularly, it is unclear how project managers monitor consultant performance (which can include timely invoicing for certain types of contracts, such as cost plus fixed fee).

¹³The percentage for paid within 60 days includes those invoices paid within 30 days. Therefore, adding the percentage of invoices paid within 60 days with the percentage of those paid after 60 days totals 100 percent. Using the revised invoice date (or "complete" date), comparison results indicate that approximately 54 percent of invoices in the sample were paid within 30 days, about 88 percent were paid within 60 days, and approximately 12 percent were paid after 60 days. The comparison did not focus on resubmitted/revised invoice dates because: (1) there is no definition or example of a complete invoice that is universally understood and accessible by staff and consultants; (2) the results of the comparison did not substantially change when using the revised/resubmitted invoice as the start date; and (3) there was substantial variation with the time frames associated with revised/resubmitted invoices making it somewhat challenging to glean generalities about the resubmission/revision process. In one case, a consultant/vendor submitted a revised invoice on the same day it submitted an initial invoice, and in other cases, the consultant submitted revised invoices a month or more after the initial invoice. Also, there does not seem to be guidance as to how long SCAG can take for review of an invoice to ensure it is complete. The consultant invoice log could be a tool to help analyze why invoices require revision or resubmittal.

Accountants maintain a consultant invoice log that helps document the aging of invoices as well as reasons for invoice resubmission/revision. For the most part, there seems to be consistency in the log's use. However, there were some instances of inconsistency in terms of how invoice received date was recorded. For example, some accountants included two dates: an initial invoice date and a revised invoice date. Others seemed to have only recorded the date of a resubmitted/revised invoice, which can affect aging metrics. In addition, the invoice log did not always clearly explain issues associated with the need for a revised/resubmitted invoice (e.g. lack of supporting documentation, lack of an internal approval, etc.). However, any issues identified by accountants are also included in some of the complete invoice packages. The invoice log—if consistently used by accountants—could be a tool to assist staff with identifying trends associated with revised/resubmitted invoices as well as whether the causes are external (e.g. lack of clarity of invoicing requirements, certain consultants not submitting correct information, etc.) or internal (e.g. lack of timely approvals, differences in how accountants review invoices, etc.).

Multiple versions of invoices are saved in different file locations and by different staff. For instance, Accounting saves invoices in three locations. Also, depending on the individual, project managers save copies of consultant invoices. In one case, a planner indicated that they save every invoice submitted by a consultant, whereas another planner said they only save “important” ones. In addition, received invoices are saved under a consultant's name (rather than contract number) while complete invoice packages are saved under payment number; there does not seem to be a consistent file naming convention used by project managers. It is unclear the extent to which all project managers have access to the invoice folders on the shared drive. As such, version control could become an issue in that staff may not be referring to the same document when dealing with a consultant/vendor.

CONCLUSION:

For the most part, SCAG is paying most of its invoices in a timely manner (the comparison shows approximately 87 percent paid within 60 days). However, there are some areas for improvement, in particular with regard to developing and implementing updated policies and procedures related to invoice processing given that current practices do not align with existing guidance. In addition, clearly identifying roles and responsibilities for invoicing as well documenting procedures for carrying out such responsibilities can help make the process more transparent and consistent.

COMMENTS:

Finance and Legal staff provided comments on the report. There were minor comments. These comments and input have been incorporated into the report.

FOLLOW-UP:

SCAG is currently updating its project management processes and procedures, to include consultant monitoring and invoicing. To ensure clarity and consistency with regard to the review and approval of invoices, roles and responsibilities should be clearly defined and documented as well as procedures for carrying out invoicing responsibilities (e.g. how to determine whether invoice costs are reasonable, allocable and allowable, how to determine compliance with contract terms, etc.). In addition, SCAG could leverage certain tools such as the consultant invoice log to proactively identify recurring issues stemming from the invoicing process. The internal audit department can follow-up on invoicing after SCAG institutes these new processes and procedures.

FISCAL IMPACT:

None

ATTACHMENT(S):

1. Attachment - Contract Sample

Sample of Active Contracts from SCAG's Financial Management System (FMS) – 08/08/2019

13-020-C1	Requisition System	Firm Fixed Price
16-040B-C3	IT Application Development and Support	Labor Hour/T&M
16-040B-C9	IT Application Development and Support	Labor Hour/T&M
17-002-C1	On/Call Economic Advisory and Outreach Services	Labor Hour/T&M
17-010-C1	Year 2016 Model Update & Validation for the 2020 RTP/SCS	Cost Plus Fixed Fee
18-001-B19	Moreno Valley - Nason Street Corridor Phase II	Cost Plus Fixed Fee
18-001-B21	Colton - South Colton Revitalization Plan	Cost Plus Fixed Fee
18-001-B43	Los Angeles County - Vision Zero Action Plan	Cost Plus Fixed Fee
18-001-B54	City of Thousand Oaks - Active Transportation Plan (ATP)	Cost Plus Fixed Fee
18-026-C01	PEIR	Cost Plus Fixed Fee
18-035-C01	First-Mile Last-Mile Connectivity Study	Cost Plus Fixed Fee
18-041-C01	Regional and Partner Office Video Conferencing Equipment	Firm Fixed Price
19-008-C01	Gartner Support	Firm Fixed Price
19-018-C01	Transportation Modeling Support for 2020 RTP-SCS)	Firm Fixed Price
19-020-C01	Greater El Monte, Baldwin Park Bicycle-Friendly Business Districts	Cost Plus Fixed Fee
19-022-C02	Go Human Co-Branding (OTS)	Firm Fixed Price
19-043-C01	Connect SoCal Outreach Forums and Public Hearings	Cost Plus Fixed Fee



Southern California Association of Governments
900 Wilshire Boulevard, Suite 1700, Los Angeles, California 90017
October 23, 2019

To: Audit Committee (AC)

EXECUTIVE DIRECTOR'S
APPROVAL

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

Subject: Internal Audit Status Report

RECOMMENDED ACTION:

For Information Only – No Action Required.

STRATEGIC PLAN:

This item supports the following Strategic Plan Goal 7: Secure funding to support agency priorities to effectively and efficiently deliver work products.

EXECUTIVE SUMMARY:

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

BACKGROUND:

Since the last Audit Committee meeting, Internal Audit has assisted the Contracts Department with pre-award reviews, updated the internal audit charter, performed a review on SCAG's invoicing process, and monitored SCAG's Ethics Hotline.

A. Pre-award Reviews

Results of pre-award review work since the last meeting are listed in Table 1.

Table 1: Pre-award Reviews performed by Internal Audit

<u>Contract Number (Consultant)</u>	<u>Proposal Amount</u>	<u>Questioned Costs</u>	<u>Final Contract Amount^a</u>
19-034 (AECOM)	\$799,652	\$28,813	\$785,625
19-038 (Cambridge Systematics)	\$529,666	\$7,499	\$513,874
19-039 (Iteris)	\$157,843	\$16,830	\$141,997
Totals	\$1,487,161	\$53,142	\$1,441,496

^aQuestioned costs are not always sustained for various reasons. Contract negotiations can also reduce proposed costs.

OUR MISSION

To foster innovative regional solutions that improve the lives of Southern Californians through inclusive collaboration, visionary planning, regional advocacy, information sharing, and promoting best practices.

OUR VISION

Southern California's Catalyst for a Brighter Future

OUR CORE VALUES

Be Open | Lead by Example | Make an Impact | Be Courageous

Pre-award reviews are non-audit services performed at the request of Contracts staff. A pre-award review request is typically based on the following: (1) if an overall proposal is \$250,000 or more, (2) if a direct labor rate is \$100 per hour or more, (3) if an overhead rate exceeds 150 percent, or (4) if a fringe rate is 50 percent or higher. Internal Audit performs pre-award reviews after SCAG selects a consultant proposal, but prior to contract negotiation and execution. Pre-award reviews inform and help Contracts Department staff with cost negotiations by identifying whether consultants' proposed rates are reasonable, allocable, and allowable as well as highlighting potential risks that may be posed by a consultant (e.g. inability to provide requested support for proposed costs, cannot meet contracting requirements, etc.).

B. Follow-up to Prior Reports

At the March meeting, Internal Audit reported that SCAG lacks guidance for staff regarding the development of independent cost estimates (ICE) that are clearly linked to proposed scopes of work. As previously reported SCAG is updating project management processes and procedures, to include cost estimating. Internal Audit can inform the Committee about results at a future meeting.

At the January meeting, Internal Audit reported that SCAG has not always received invoices regularly per contract terms. The Committee requested that an action plan regarding vendor invoicing and receipts management be added as a future agenda item. SCAG plans to address these topics when staff completes its updates of current policies and procedures. Internal Audit can inform the Committee about results at a future meeting.

C. Audit Standards

The Internal Audit Charter now reflects the adoption of the International Standards for the Professional Practice of Internal Auditing (i.e. "Red Book" standards) promulgated by the Institute of Internal Auditors (IIA).¹ The updated charter is included as a separate item in this agenda package.

D. Invoicing Review

Internal Audit conducted a review of the invoicing process and found that existing guidance is not aligned with current practices as well as more clarity regarding roles and responsibilities would be helpful. A separate report on this review has been included in this agenda package.

E. External Audits

SCAG's financial auditors, Eide Bailly, LLP, has started audit on work SCAG's fiscal year (FY) 2018-19 financial statements. Caltrans completed an incurred cost audit as well as an audit of SCAG's

¹IIA, International Standards for the Professional Practice of Internal Auditing (Standards) (Jan. 2017).

indirect cost allocation plan (ICAP) and has requested additional information related to SCAG's corrective action plans (CAP) that were submitted in July.²

- Financial Statement Audit

SCAG's external independent financial auditors have started preliminary audit work on SCAG's FY 2018-2019 financial statements. Eide Bailly plan to complete the audit and report the results to the Committee later this fall (November or December).

- Incurred Cost and ICAP Audits

As per the audit findings, SCAG was required to develop CAPs to address audit findings and recommendations for both the incurred cost and ICAP audits and submit the plans to Caltrans by August 1, 2019. SCAG submitted its proposed CAPs on July 11, 2019 and July 12, 2019.

SCAG received responses from Caltrans for both the incurred cost and ICAP audits on October 8, 2019. Caltrans has requested additional documentation from SCAG to include updated policies and procedures as well as evidence of implementation, among other things, by November 30, 2019. This is to help Caltrans make the determination whether SCAG has implemented adequate corrective measures for each audit finding and to ensure compliance with Caltrans agreements and federal and state rules. In addition, Caltrans has requested that SCAG provide supporting documentation for SCAG's substitution of costs proposal made in response to the State's disallowance of \$4.4 million. SCAG has made progress in addressing the audits' recommendations and aims to provide the requested documentation to Caltrans by the requested due date. A separate report on SCAG efforts related to the Caltrans audits along with the Caltrans responses to the CAPs have been included in this agenda package.

²Caltrans, *Southern California Association of Governments Incurred Cost Audit*, (Sacramento, CA: Sept. 21, 2018), and *Southern California Association of Governments Indirect Cost Allocation Plan Audit*, (Sacramento, CA: Jan. 9, 2019).

F. Ethics Hotline Monitoring

SCAG received four anonymous reports via the Ethics Hotline since March. Two reports were received in April, one in May, and one in September. The first two reports were closed due to lack of sufficient information for further review. The third report contained sufficient information. SCAG's Chief Counsel has conducted an internal review of the matter and is in the process of closing the report. The fourth report also contained sufficient information and SCAG's Internal Auditor has started a review of the matter.