



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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County Transportation Authority

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Corridor Agencies

Energy & Environment
Linda Parks, Ventura County

Transportation
Curt Hagman, San Bernardino
County

MEETING OF THE

AUDIT COMMITTEE

Tuesday, January 8, 2019
10:00 a.m. – 11:30 a.m.

SCAG MAIN OFFICE

900 Wilshire Blvd., Ste. 1700
Policy Room A
Los Angeles, CA 90017
(213) 236-1800

VIDEOCONFERENCE AVAILABLE AT THE FOLLOWING LOCATIONS

SCAG Orange County Regional Office
OCTA Building, Conf. Rm. 102
600 South Main Street
Orange, CA 92868

SCAG Riverside County Regional Office
3403 10th Str., Ste. 805
Riverside, CA 92501

SCAG Imperial County Regional Office
1405 North Imperial Avenue
Suite 1
El Centro, CA 92243

If members of the public wish to review the attachments or have any questions on any of the agenda items, please contact Carmen Summers at (213) 236-1984 or via email at summers@scag.ca.gov. Agendas & Minutes for the Audit Committee are also available at: www.scag.ca.gov/committees

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

Date: Tuesday, January 8, 2019

Time: 10:00AM-11:30AM

Location: SCAG Main Office

900 Wilshire, Suite 1700 – Policy Room A

Los Angeles, CA 90017

TELECONFERENCE INSTRUCTIONS & INFORMATION PURSUANT TO GOVERNMENT CODE §54953. For Brown Act requirements, please post a copy of the agenda at your teleconference location.

LIST OF MEMBERS

1. **Hon. Randon Lane, Chair**
City of Murrietta, District 5
2. **Hon. Alan Wapner**
City of Ontario, SBCTA
3. **Hon. Bill Jahn**
City of Big Bear Lake, District 11
4. **Hon. Margaret Finlay**
City of Duarte, District 35
5. **Hon. Sean Ashton**
City of Downey, District 25
6. **Hon. Jim Hyatt**
City of Calimesa, District 3
7. **Hon. Clint Lorimore**
City of Eastvale, District 4
8. **Hon. Steve Manos**
City of Lake Elsinore, District 63
9. **Hon. Ray Marquez**
City of Chino Hills, District 10

MEETING LOCATIONS

- SCAG Main Office**
900 Wilshire, Suite 1700
Los Angeles, CA 90017
- Island Sands Resort
150 Hauoli St., Ma'alaea Village
#605
Maui, HI
- 43115 Plymouth Rd.
Big Bear Lake, CA
- SCAG Main Office**
900 Wilshire, Suite 1700
Los Angeles, CA 90017
- SCAG Main Office**
900 Wilshire, Suite 1700
Los Angeles, CA 90017
- SCAG Riverside County Regional Office**
3403 10th Street, Suite 805
Riverside, CA 92501
- SCAG Riverside County Regional Office**
3403 10th Street, Suite 805
Riverside, CA 92501
- Lake Elsinore City Hall
Conference Room B
130 S Main Street
Lake Elsinore, CA 92530
- Chino Hills Government Center
Second Floor – Council Office
14000 City Center Drive
Chino Hills, CA 91709



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

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Los Angeles, CA 90017

TELECONFERENCE INSTRUCTIONS & INFORMATION PURSUANT TO GOVERNMENT CODE §54953. For Brown Act requirements, please post a copy of the agenda at your teleconference location.

10. **Hon. Fred Minagar**
City of Laguna Niguel, District 12
Minagar & Associates, Inc.
23272 Mill Creek Drive, Suite 240W
Laguna Hills, CA 92653

11. **Sup. Linda Parks**
Ventura County

12. **Hon. Carmen Ramirez, Vice Chair**
City of Oxnard, District 45
Oxnard City Hall
4th Floor, Conference Room
300 W Third Street,
Oxnard, CA 93030

13. **Hon. Ali Saleh**
City of Bell, District 27
Sheraton Grand Sacramento Hotel
Lobby
1230 J Street
Sacramento, CA 95814

14. **Hon. Marty Simonoff**
City of Brea, District 22
SCAG Orange County Regional Office
OCTA Building, Conf. Rm. 102
600 South Main Street
Orange, CA 92868

15. **Hon. Cheryl Viegas-Walker**
City of El Centro, District 1
SCAG Imperial County Regional Office
1405 North Imperial Avenue
Suite 1
El Centro, CA 92243



AUDIT COMMITTEE AGENDA

Southern California Association of Governments
900 Wilshire Boulevard, Suite 1700
Los Angeles, California 90017
Tuesday, January 8, 2019
10:00 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 Randon Lane, Chair)

PUBLIC COMMENT PERIOD

Members of the public desiring to speak on items on the agenda, or items not on the agenda, but within the purview of the Committee, 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 Items

- | | | |
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| 1. <u>2019 Proposed Meeting Schedule</u> | | 1 |
| 2. <u>Minutes of the August 14, 2018 Meeting</u> | | 2 |
| 3. <u>Minutes of the October 24, 2018 Special Meeting</u> | | 7 |

INFORMATION ITEMS

- | | | |
|--|-----------------|-----------|
| 4. <u>Fiscal Year (FY) 2017-18 External Financial Audit</u>
<i>(Joshua Margraf, Internal Auditor)</i> | 30 mins. | 10 |
| 5. <u>Contract Invoice Review</u>
<i>(Joshua Margraf, Internal Auditor)</i> | 10 mins. | 21 |
| 6. <u>Vendor-Employee Address Comparison Review</u>
<i>(Joshua Margraf, Internal Auditor)</i> | 10 mins. | 25 |
| 7. <u>Internal Audit Status Report</u>
<i>(Joshua Margraf, Internal Auditor)</i> | 15 mins. | 28 |

FUTURE AGENDA ITEM/S

ANNOUNCEMENT/S

ADJOURNMENT



Southern California Association of Governments
900 Wilshire Boulevard, Suite 1700, Los Angeles, California 90017
January 8, 2019

To: Audit Committee (AC)

INTERIM
EXECUTIVE DIRECTOR'S
APPROVAL

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

Subject: 2019 Proposed Meeting Schedule

RECOMMENDED ACTION:

Approve the 2019 Proposed Meeting Schedule for the Audit Committee.

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

BACKGROUND:

Audit Committee meetings are typically held from 10:00 a.m.-11:30 a.m. The tentative schedule for the 2019 Audit Committee meetings is as follows:

Tuesday, March 19, 2019

(meeting date does not conflict with the 2019 National League of Cities Conference in Washington, DC, (March 10-13, 2019)

Tuesday, June 11, 2019

Tuesday August 13, 2019

Tuesday, November 12, 2019

(meeting date does not conflict with the 2019 National League of Cities Summit in San Antonio, Texas Nov.20-23, 2019

FISCAL IMPACT:

None



Southern California Association of Governments
900 Wilshire Blvd., Suite 1700, Los Angeles, CA 90017

AUDIT (AC) COMMITTEE
MINUTES OF THE MEETING
TUESDAY, AUGUST 14, 2018

THE FOLLOWING MINUTES ARE A SUMMARY OF ACTIONS TAKEN BY THE AUDIT COMMITTEE. A DIGITAL RECORDING OF THE ACTUAL MEETING IS AVAILABLE FOR LISTENING AT SCAG'S OFFICE.

The Audit Committee met at SCAG's main office, 900 Wilshire Blvd., 17th Floor, Los Angeles, CA 90017. The meeting was called to order by Councilmember Cheryl Viegas-Walker. A quorum was present.

Members Present:

Hon. Randon Lane, Chair	<i>Murrieta</i>	District 5
Hon. Carmen Ramirez, Vice Chair	<i>Oxnard</i>	District 45
Hon. Alan D. Wapner	<i>Ontario</i>	SBCTA
Hon. Bill Jahn	<i>Big Bear Lake</i>	District 11
Hon. Margaret Finlay	<i>Duarte</i>	District 35
Hon. Jim Hyatt	<i>Calimesa</i>	District 3
Hon. Clint Lorimore	<i>Eastvale</i>	District 4
Hon. Steve Manos	<i>Lake Elsinore</i>	District 63
Hon. Ray Marquez	<i>Chino Hills</i>	District 10
Hon. Fred Minagar	<i>Laguna Niguel</i>	District 12
Sup. Linda Parks	<i>Ventura County</i>	
Hon. Ali Saleh	<i>Bell</i>	District 27
Hon. Marty Simonoff	<i>Brea</i>	District 22
Hon. Cheryl Viegas-Walker	<i>El Centro</i>	District 1

Members Not Present

Hon. Sean Ashton	<i>Downey</i>	District 25
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CALL TO ORDER AND PLEDGE OF ALLEGIANCE

Vice Chair Cheryl Viegas-Walker, called the meeting to order at 10:35 a.m. and asked Darin Chidsey, SCAG COO, to lead the Pledge of Allegiance.

PUBLIC COMMENT PERIOD

There were no public comments.

REVIEW AND PRIORITIZE AGENDA ITEM

Darin Chidsey requested the Committee to hear Agenda Item No. 3: Internal Audit-Roles and Responsibilities, as an “Introduction” for the new membership.

Chair Randon Lane joined the meeting and continued to chair the remaining of the items from this point forward.

SELECTION OF VICE CHAIR

A MOTION was made (Finlay) to nominate and select Hon. Carmen Ramirez, City of Oxnard, as the Vice-Chair. Motion was SECONDED (Hyatt). The motion was passed by the following roll call vote:

FOR: Lane, Finlay, Hyatt, Jahn, Lorimore, Manos, Marquez, Minagar, Parks, Ramirez, Saleh, Simonoff, Viegas-Walker and Wapner (14).

AGAINST: None (0).

ABSTAIN: None (0).

CONSENT CALENDAR

Approval Item

1. Minutes of the Audit Committee Meeting – March 20, 2018

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

FOR: Lane, Finlay, Hyatt, Jahn, Lorimore, Manos, Marquez, Minagar, Parks, Ramirez, Saleh, Simonoff, Viegas-Walker and Wapner (14).

AGAINST: None (0).

ABSTAIN: None (0).

ACTION ITEM

2. Annual Internal Audit Plan

Joshua Margraf, Internal Auditor, provided an overview of the proposed annual internal audit plan for FY 2018-19. The plan listed audit areas that included (but not limited to) pre-award reviews, project management, procurement, Ethics Hotline monitoring. He also described current audit work, findings and recommendations. The proposed plan is based on prior audit work risk areas. It also takes into consideration any findings from external audits (e.g. financial auditors). Mr. Margraf asked the Committee to approve the FY 2018-19 audit plan.

Councilmember Carmen Ramirez inquired about the status of SCAG's policies with regard to contract deliverables. Debbie Dillon, Deputy Executive Director, explained that SCAG's Director of Planning, Kome Ajise, is leading SCAG's efforts to update project management policies and map out related procedures. SCAG has hired a consultant to assist in developing agency-wide project management guidance to include skills-training and ultimately a handbook that staff can use to ensure consistent operations. Ms. Dillon noted that the official Project Management "Kick off" should begin within the next few weeks.

A MOTION was made (Jahn) and SECONDED (Hyatt) to approve the FY 2018-19 Internal Audit Plan. The motion was passed by the following roll call vote:

FOR: Lane, Finlay, Hyatt, Jahn, Lorimore, Manos, Marquez, Minagar, Parks, Ramirez, Saleh, Simonoff, Viegas-Walker and Wapner (14).

AGAINST: None (0).

ABSTAIN: None (0).

INFORMATION ITEMS

3. Internal Audit-Roles and Responsibilities

Joshua Margraf, Internal Auditor, provided an overview of SCAG's internal audit function's roles and responsibilities. He explained that the internal audit function reports functionally to the Regional Council and Audit Committee, and administratively to SCAG's COO. The reporting relationship was shown on the organization chart, which was part of the agenda packet. Councilmember Walker noted that the organization chart did not clearly show the relationship. Ms. Dillon indicated that the chart would be updated to reflect the internal auditors' direct reporting structure.

Mr. Margraf stated that the internal audit work conducted includes, but is not limited to, independent analyses, appraisals, risk management, IT assets, pre-award reviews of consultant proposals, essential internal controls, findings and recommendations. Other planned reviews include of SCAG's project management processes. (A complete and detailed list of planned audit work was included in the agenda packet –Agenda Item No.2).

Mr. Margraf responded to comments and questions expressed by Councilmembers, including questions regarding potential IT reviews of Cybersecurity and tighter internal/external access controls as an audit/risk item to review.

Darin Chidsey, COO, provided an update on the Caltrans audit. He noted that the reports are still pending; however, the incurred cost audit report is expected to be finalized within the next two weeks. The report will be presented to the AC at its next meeting. Many Councilmembers expressed interest in the Caltrans audit findings.

4. Petty Cash Review

Joshua Margraf, Internal Auditor, provided a report on petty cash. He noted that no discrepancies were found with regard to cash on-hand and petty cash fund records. However, Mr. Margraf recommended some relatively small improvements to the petty cash request form, which could include the maximum advance amount allowed, tighter controls on reimbursement time frames, and other supporting documentation on advance amounts of petty cash.

5. Internal Audit Status Report

Joshua Margraf, Internal Auditor, provided an update on the Internal Audit Status Report. He described the various types of pre-award reviews conducted. These reviews assist Contracts staff with contract negotiations. Mr. Margraf identified areas of procurement-related improvement options, including how consultants lack an understanding of SCAG and government contracting requirements, which results in them not providing requested information to support costs identified in their proposal.

Mr. Margraf discussed the annual audit plan—which was previously approved earlier in the agenda, and the external audits, which are ongoing. These external audits include the aforementioned Caltrans audit as well as a financial audit performed by Vavrinek, Trine, Day, and Company, LLP (VTD).

Mr. Margraf responded to comments and questions expressed by the Councilmembers, including questions regarding Mr. Margraf's audit reviews of companies with a high ratio of questioned costs, and if there was a mechanism in place to flag those companies. Mr. Margraf indicated that SCAG does not currently track consultants that tend to have issues arise during a pre-award review.

Discussion ensued with recommendations by the Committee to streamline the contracts portal site on SCAG's website as it pertains to how companies can do business with SCAG; implement more active outreach, and offer annual workshops or seminars so that firms have a better understanding of SCAG's procurement process.

Darin Chidsey, COO, agreed with the Committee, stating that SCAG has a complicated procurement process and introducing guidance-related workshops would be helpful. He noted that SCAG is always looking to do business with new firms.

FUTURE AGENDA ITEM

There were no future agenda items requested.

ANNOUNCEMENT/S

Chair Lane reminded the Committee that Joshua Margraf, Internal Auditor, reports to the Audit Committee, as such, he asked that the Committee members to copy him on any communication or correspondence to the Internal Auditor, as well as any direction that might be requested, to ensure information is provided to all Committee members.

ADJOURNMENT

There being no further business, Chair Lane adjourned the Audit Committee meeting at 11:34 a.m.

[MINUTES ARE UNOFFICIAL UNTIL APPROVED BY THE AUDIT COMMITTEE]

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Southern California Association of Governments
900 Wilshire Blvd., Suite 1700, Los Angeles, CA 90017

AUDIT (AC) COMMITTEE
MINUTES OF THE MEETING
WEDNESDAY, OCTOBER 24, 2018

THE FOLLOWING MINUTES ARE A SUMMARY OF ACTIONS TAKEN BY THE AUDIT COMMITTEE. A DIGITAL RECORDING OF THE ACTUAL MEETING IS AVAILABLE FOR LISTENING IN SCAG'S OFFICE.

The Special Audit Committee met at SCAG, 900 Wilshire Blvd., 17th Floor, Los Angeles, CA 90017. The meeting was called to order By Chair, Randon Lane. A quorum was present.

Members Present:

Hon. Randon Lane, Chair	<i>Murrieta</i>	District 5
Hon. Carmen Ramirez, Vice Chair	<i>Oxnard</i>	District 45
Hon. Alan D. Wapner	<i>Ontario</i>	SBCTA
Hon. Bill Jahn	<i>Big Bear Lake</i>	District 11
Hon. Margaret Finlay	<i>Duarte</i>	District 35
Hon. Sean Ashton	<i>Downey</i>	District 25
Hon. Jim Hyatt	<i>Calimesa</i>	District 3
Hon. Clint Lorimore	<i>Eastvale</i>	District 4
Hon. Steve Manos	<i>Lake Elsinore</i>	District 63
Hon. Ray Marquez	<i>Chino Hills</i>	District 10
Hon. Fred Minagar	<i>Laguna Niguel</i>	District 12
Hon. Ali Saleh	<i>Bell</i>	District 27
Hon. Marty Simonoff	<i>Brea</i>	District 22

Members Not Present

Sup. Linda Parks	<i>Ventura County</i>	
Hon. Cheryl Viegas-Walker	<i>El Centro</i>	District 1

CALL TO ORDER AND PLEDGE OF ALLEGIANCE

Chair Lane called the meeting to order at 10:02 a.m. and asked everyone to join him in the Pledge of Allegiance.

PUBLIC COMMENT PERIOD

There were no public comments.

REVIEW AND PRIORITIZE AGENDA ITEM

There was no reprioritization of the agenda.

DISCUSSION ITEM

1. Caltrans Incurred Cost Audit Report

Darin Chidsey, Interim Executive Director, provided background information on and an overview of the Caltrans *final* Incurred Cost Audit report, which had five findings. SCAG's Draft Corrective Action Plan (Action Plan) to address said findings was also discussed. Firstly, Mr. Chidsey explained why the audit was performed, and highlighted SCAG's audit history and timeline with Caltrans. He noted that it had been approximately 15 years since an audit by Caltrans was performed, and that in 2016, Caltrans did engage and conduct an Incurred Cost Audit. He commented that today's meeting would focus on the final report, SCAG's Action Plan and next steps.

Mr. Chidsey provided details regarding the audit's five findings, and the specific steps SCAG will take as part of its Action Plan. This Action Plan is in response to the audit report and will be submitted to Caltrans, which will develop its own final corrective action plan that SCAG must follow. He noted that the Caltrans report mostly focused on weaknesses with internal management processes, project management and policies as well as procedural updates. He reported that staff is currently moving forward on the recommendations, particularly, updating the procurement manual and the contract management processes by end of this fiscal year. Staff will notify the Committee members of any procedural updates implemented.

In highlighting items from SCAG's Action Plan, Mr. Chidsey referenced, "Finding 5--Possible Conflict of Interest with Sponsorship Program." (Program). He noted that staff would need to bring forth a revised sponsorship program policy that establishes procedures over the program to ensure there are no real or appearance of conflicts of interest with consultants that provide SCAG with donations and are also awarded consultant contracts. The revised program will be brought to the Legislative Communications and Membership Committee, and then onto the Regional Council (RC) for approval. He stated that although there is a small number of sponsors that also do business with SCAG, an actual sponsorship program policy would need to be developed for SCAG to be in compliance with the audit's findings.

Debbie Dillon, Deputy Executive Director, responded to the comments and questions expressed by the Councilmembers, including questions regarding how changes to the current sponsorship program might affect the elected officials approach with potential sponsors. Ms. Dillon commented that she is confident that the current process is completely acceptable, but just not documented. She indicated that she sees no changes in how elected officials approach vendors for sponsorship. She noted that the audit only raised concerns because SCAG did not have a written and approved policy governing the sponsorship process. She reported that staff have drafted a policy and procedures manual for the Sponsorship program; it is currently being circulated internally for review and approvals.

In conclusion, Ms. Dillon noted that the next step would be to receive from Caltrans its final corrective action plan to SCAG, which would be informed by SCAG's Action Plan. Ms. Dillon provided an update of the Caltrans submittal deadline and timelines and noted that the disallowance/reimbursed cost are not finalized until the final corrective action plan has been received from Caltrans.

Chair Lane requested that the Committee give direction to staff so that staff may move forward with SCAG's Action Plan submittal process and to bring an update back to the Audit Committee at a later date. The Committee expressed appreciation for staff's effort in drafting SCAG's Responses to the Audit report.

FUTURE AGENDA ITEM

There were no future agenda items requested.

ANNOUNCEMENT/S

There were no announcements made.

ADJOURNMENT

There being no further business, Chair Lane adjourned the Special Audit Committee meeting at 10:37 a.m.

[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
January 8, 2019

To: Audit Committee (AC)

INTERIM
EXECUTIVE DIRECTOR'S
APPROVAL

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

A handwritten signature in blue ink, appearing to read "D. Lin", is written over the printed text "APPROVAL".

Subject: Fiscal Year (FY) 2017-18 External Financial Audit

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:

SCAG's external independent auditor will present the preliminary FY 2017-18 audit report.

BACKGROUND:

SCAG's external independent auditors, Vavrinek, Trine, Day, and Company, LLP (VTD), have completed their audit of SCAG's FY 2017-18 financial statements. They will present the results to the Audit Committee.

FISCAL IMPACT:

None



Southern California Association of Governments

Auditor Communications

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

Audit Scope and Timing

Perform the audit of the:

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

Timeline:

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

Our Responsibility

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

Our Approach

Planning and Risk Assessment:

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

Year End Fieldwork:

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

Summary of Audit Results

Reports Issued

- Unmodified Opinion on the CAFR
- Internal Control Over Financial Reporting and Compliance and Other Matters
 - No Material Weaknesses Reported
 - No Instances of Noncompliance Reported
- Single Audit (Uniform Guidance)
 - Major Programs – CFDA No. 20.505 *Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research* and CFDA No. 20.514 *Public Transportation Research*
 - No Material Weaknesses Reported
 - Unmodified Opinion on Compliance
- Management Letter

Required Communications

- SCAG adopted GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, during the year.
- We noted no transactions entered into by SCAG during the year for which there is a lack of authoritative guidance or consensus.
- No corrected or uncorrected misstatements were reported.
- Sensitive Estimates – Net Pension Liabilities and Net OPEB Liabilities
- We encountered no significant difficulties in dealing with management in performing and completing our audit.
- We are pleased to report that no disagreements arose during the course of our audit.
- We have requested certain representations from management that are included in the management representation letter.
- To our knowledge, there were no such consultations with other accountants.

Required Communications

- Other Data Contained in the Financial Statements

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

Contact Information

Roger Alfaro, Partner

ralfaro@vtdcpa.com

909-466-4410

VALUE THE *difference*



Southern California Association of Governments
900 Wilshire Boulevard, Suite 1700, Los Angeles, California 90017
January 8, 2019

To: Audit Committee (AC)

INTERIM
EXECUTIVE DIRECTOR'S
APPROVAL

From: Basil Panas, Chief Financial Officer, Finance, 213-236-1817,
panas@scag.ca.gov

Subject: Contract Invoice 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 how often SCAG receives consultant invoices.

BACKGROUND:

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. SCAG contracts with consultants usually require regular invoicing intervals (e.g. monthly). These contracts also require consultants to provide progress reports as part of the invoice package, which describe percentage and status of work complete. The recent Caltrans incurred cost audit identified deficiencies with consultant invoices, but did not discuss invoice frequency or timeliness.¹ Without timely invoicing, it can become challenging for SCAG to keep its records up-to-date, ensure all current fiscal year funds are being spent, and consultant progress is being monitored.

SCOPE AND METHODOLOGY:

For this engagement, the focus was specifically on the frequency of when SCAG receives invoices. A random sample of contracts started in calendar year 2017 was selected, because this time frame allows for a decent number of relatively recent contracts.² The time frame also reflects recent SCAG

¹Caltrans, [Southern California Association of Governments Incurred Cost Audit](#), (Sacramento, CA: Sept. 21, 2018). The audit findings noted that consultant invoices lacked adequate support for costs charged, among other things.

²Internal Audit ran a query of contracts started in 2017 in SCAG's Financial Management System (FMS) on December 4, 2018, and randomly selected six contracts. One contract in the sample reflected a data purchase—a purchase order agreement was signed between SCAG and the consultant. The purchase order agreement did not require invoicing terms over a period of time, so an additional contract was randomly selected. The number of contracts in the sample represent at least 10 percent of all contracts started in calendar year 2017 (the universe for the random sample totaled 48 contracts).

operations. Contract terms related to invoicing frequency for each contract in the sample were reviewed to determine the extent consultants complied with these terms, as well as to see how late SCAG received invoices. Invoice dates were compared with contract invoicing requirements as well as whether the invoices contained consultant progress reports.³ We then checked for progress reports because SCAG typically requires consultants to include progress reports with invoices (a question arises as to how SCAG monitors consultant performance if invoices are not timely).⁴

RESULTS:

Table 1 shows results of the review.

Table 1: Results of Invoice Frequency Review

Contract	Type	Amount	Invoice Frequency	Met Invoice Requirements	Progress Report Required
17-017-C1	Cost Plus Fixed Fee	\$199,601	Monthly	N	Y
17-029-C1	Labor Hour	\$20,300	Monthly	N	N
17-033-C1	Cost Plus Fixed Fee	\$50,037	Monthly	N	Y
17-037-C1	Cost Plus Fixed Fee	\$49,817	Quarterly	Y	N
17-038-SSG1	Retainer	\$100,000	Monthly	N	N
17-042-C1	Other	\$81,600	N/A	N/A	N/A
18-001-B54 ^a	Cost Plus Fixed Fee	\$99,861	Monthly	N	Y

^aContract numbers do not necessarily reflect calendar year. SCAG’s fiscal year starts in July, so any contracts started in July 2017 through December 2017 would have a contract number that reflects fiscal year 2018.

Source: Review of data extracted from FMS on 12/04/2018.

One contract in the sample met invoicing time frames. Contract 17-037-C1 required submittal of quarterly invoices, which the consultant provided. The contract also required invoices to include progress reports. The consultant only submitted one invoice—the final invoice—because it seemed to finish all contract work within the first billing cycle. As such, the invoice did not include a progress report (as the final product would have been received and accepted by SCAG, i.e. “100 percent” complete). The contract started in July 2017 and ended in October 2017.

In three instances, consultants invoiced relatively consistently.⁵

- For Contract No. 17-17-C1, except for the first two months after contract start, the consultant submitted required monthly invoices until contract completion (the contract started in May 2017 and ended in June 2018). These invoices included progress reports.

³For this review, we used the invoice folders located on SCAG’s K:Drive. These folders are maintained by Accounting staff. The invoices show the date the consultant prepared them as well as the date SCAG received them, among other things.

⁴We did not review the type of information included in the progress report as that was reviewed in the Caltrans audit.

⁵For the purposes of this review, “consistently” refers to contracts that met invoicing requirements more than sixty (60) percent of the time.

- For Contract No. 17-038-SSG1, the consultant submitted invoices consistently except for three instances when invoices contained multiple months. This contract is a retainer agreement and does not require progress reports to be included with invoices. The agreement term is April 2017 through June 2019.
- For Contract No. 18-001-B54, the consultant submitted invoices consistently except for two instances. In one instance an invoice contained multiple months. In another instance, no invoice or progress report was provided for a month's work (this month was not reported in a future invoice). The contract term is October 2017 through June 2019.
- In two instances, consultants did not submit invoices on a regular basis as per contract terms.
- For Contract No. 17-029-C1, SCAG requires monthly invoices. It only received invoices twice in the past 17 months (the last invoice received was in January 2018). Nevertheless, the type of contract is a labor hour agreement, in which the consultant is paid when services are rendered. The contract did not require progress reports to be included with invoices. In this case, the significant gaps in invoicing may be partially due to contract requirements not necessarily being the best fit for contract scope. The contract term is June 2017 through June 2020.
- For Contract No. 17-033-C1, the consultant is required to submit invoices that include a progress report on a monthly basis. However, the consultant submitted five invoices over the span of 18 months. The last invoice was submitted in July 2018. The contract term is May 2017 through June 2019.

Contract 17-42-C1 was for a data purchase. As such, the contract did not require regular invoices. The consultant submitted an invoice after it provided the data in September 2017. SCAG received the invoice in November 2017.

CONCLUSION:

Based on the sample, SCAG has not received invoices regularly as per contract terms. This can be a concern as it can affect SCAG's ability to keep its records up-to-date while ensuring all fiscal year funds are being effectively spent. In addition, progress reports are tied to invoices. If invoices are not received regularly, project managers cannot monitor consultant performance as effectively. As SCAG updates its policies and procedures, it should think of ways to help ensure timely invoices and progress reports. For example, some SCAG contracts include a clause that allows SCAG to charge a \$1,000 penalty per late invoice (i.e. any invoice not received within 30 calendar days of the invoice due date), which SCAG can leverage if it chooses.

COMMENTS:

Finance staff reviewed the report and provided comments that have been incorporated into the draft.



FOLLOW-UP:

SCAG is currently updating its project management processes and procedures, to include consultant monitoring. This should include guidance regarding how SCAG is to monitor consultant performance as well as what to do in case consultants have not been invoicing as required by contract terms. Internal Audit will follow-up on invoicing after SCAG institutes new processes and procedures.

FISCAL IMPACT:

None



Southern California Association of Governments
900 Wilshire Boulevard, Suite 1700, Los Angeles, California 90017
January 8, 2019

To: Audit Committee (AC)

INTERIM
EXECUTIVE DIRECTOR'S
APPROVAL

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

Subject: Vendor-Employee Address Comparison 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 compared vendor and consultant addresses with employee and Regional Council (RC) member addresses to determine if any discrepancies exist.

INTRODUCTION:

SCAG regularly enters into contracts with vendors and consultants to help carry out its planning work. As such, the internal audit function can perform reviews to help identify any potential concerns regarding vendors and consultants. For instance, this comparison of vendor/consultant addresses with employee and RC member addresses is a relatively straightforward test that can be performed on a regular basis.

BACKGROUND:

SCAG provides each vendor, consultant, employee, and Regional Council member a unique ID number in its accounting system so as to track payment information.¹ SCAG also maintains a list of all vendors, consultants, employees, and RC members in its accounting system (referred to as the “master vendor list”). The master vendor list includes a variety of information including ID numbers, active or inactive status of vendors, consultants, employees, and RC members, their last invoice date to SCAG, and their billing addresses, among other things.² IDs are added to this list when SCAG enters into contracts with new vendors or consultants; when SCAG hires new staff; and/or when

¹SCAG provides RC members with two unique IDs: one for tracking stipends paid, and one for tracking any expenses claimed (e.g. travel, parking, meals, etc.) by RC members.

²Active status means that SCAG can generate purchase orders and enter transactions into the accounting system for that ID. Inactive status means that no purchase orders can be generated or transactions entered into the accounting system.

the RC gains new members. When an employee separates from SCAG and when RC members leave SCAG, their IDs change from active status to inactive status in the accounting system. SCAG maintains one master vendor list, and only two staff can update or enter information into the list.

SCOPE AND METHODOLOGY:

Internal Audit performed a comparison of vendor/consultant addresses with employee and RC member addresses to determine whether any matches exist. A match could indicate possible conflicts of interest, such as an employee and vendor being the same individual or collusion between an employee and vendor. To perform the comparison, we extracted a copy of the master vendor list from the accounting system to Excel, and sorted the records by address.³ The master list contains 3,065 records. Internal Audit flagged IDs that showed duplicate addresses among vendors/consultants, employees, and RC members. These items were discussed with pertinent staff, including a staff member responsible for maintaining the list, the Contracts manager, and the Chief Financial Officer. The comparison focused on IDs with “active” status since SCAG can still generate purchase orders and enter transactions into the accounting system for those IDs.

RESULTS:

There was only one match where a vendor/consultant with active status shared an address with a former RC member, whose status was also active. There were no instances where a vendor/consultant with active status shared an address with an employee with active status. Contracts staff noted that the RC member (when he was on the Regional Council) likely owned the business prior to joining SCAG, and used the business address as the RC member address. Another reason for the match between vendor/consultant and RC member could have been due to vendor/consultant addresses not being updated or inactivated on a frequent basis (the last time this was done seems to have been in 2015). The rationale for keeping vendor/consultant status “active” is to not create unnecessary work for staff; staff may need to reactivate inactive vendors/consultants if they do business with SCAG at a later date. The staff also indicated that the accounting system does not allow for comparing addresses of new entries with current entries when entering new IDs into the master vendor list. Basically, any comparison of data has to be done before or after entering new IDs.

Although outside the scope of this review, data from the master vendor list data led to other questions. For example, there were four instances where the same vendor/consultant had two different vendor/consultant IDs with active status. Contracts staff said these are likely due to a vendor/consultant changing its name slightly at one point in time while doing business with SCAG (e.g. from “Analytics” to “Associates” or using an acronym rather than spelling out the full vendor/consultant name), or simply an error when entering an ID into the master vendor list (e.g. not checking if the vendor/consultant is already on the list). In 10 instances, two or more vendor/consultants with active status shared the same address. According to Contracts staff, the reasons include changes in vendor/consultant names, the owner of a vendor/consultant doing

³Data extracted from the accounting system on December 4, 2018.



business with SCAG individually, and/or student volunteers whose expenses were covered by SCAG (e.g. travel).⁴

CONCLUSION:

The risk of a conflict of interest existing with vendors/consultants and employees or RC members seems low based on the comparison of addresses from SCAG's master vendor list. However, it does point to operational improvements that may be made so as to create more accuracy and efficiency.

COMMENTS:

Contracts staff reviewed the report and provided comments that have been incorporated into the draft.

FOLLOW-UP:

The master vendor ID list could be checked on a more regular basis (e.g. annually) for duplicate entries and to ensure it is up-to-date. It is unclear how much work is required to change a vendor's status in the accounting system, but it may be helpful to change vendor/consultants status from active to inactive if SCAG has not done business with them for a prolonged period of time.

FISCAL IMPACT:

None

⁴SCAG provides volunteers, interns, and staff with a vendor ID to track expense payments such as travel reimbursements.



Southern California Association of Governments
900 Wilshire Boulevard, Suite 1700, Los Angeles, California 90017
January 8, 2019

To: Audit Committee (AC)

INTERIM
EXECUTIVE DIRECTOR'S
APPROVAL

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

Handwritten signature in blue ink

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 regular Audit Committee meeting in August 2018, Internal Audit has assisted the Contracts Department with pre-award reviews, performed a review of contract invoices, performed a comparison of vendor addresses with employee and RC member addresses, assisted with external audits, determined how to prepare for potential peer review, and monitored SCAG's Ethics Hotline.

A. Pre-award Reviews

Internal Audit performed the following pre-award reviews as listed in Table 1.

Table 1: Pre-award Reviews performed by Internal Audit

Table with 4 columns: Consultant (Contract Number), Proposal Amount, Questioned Costs, Final Contract Amount. Rows include Ascent Environmental, Urban Design 4 Health, System Metric Group, KOA, HDR Engineering, AMMA, Cambridge Systematics, Alta Planning + Design, and a Totals row.

^aQuestioned costs are not always sustained for variety of reasons, such as removal of subconsultants, shifting work to prime consultant, and consultants providing additional information during contract negotiations, but after pre-award review, among other things. In addition, contract negotiations can further reduce consultant costs.

^bInternal Audit performed a pre-award review for these contracts, but final cost is still being negotiated. As such, amounts have not been included to allow for clearer comparison.

Pre-award reviews of consultant proposals are based on a dollar threshold (\$250,000 or more) and/or a request from Contracts staff (typically if direct labor is \$100 per hour or more, if the overhead rate exceeds 150 percent, or if the 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. They also inform and assist Contracts staff with negotiations, by helping identify whether consultants' proposed rates are reasonable, allocable, and allowable, as well as identify any potential risks that may be posed by a consultant.

Internal Audit also reviewed consultant information submitted for contract amendments and proposals.¹ This work included procedures for verifying direct labor rates as well as indirect rates and other direct costs, among other things.

B. Contract Invoice Review

Internal Audit conducted a review of how often SCAG receives consultant invoices. SCAG has not always received invoices regularly as per contract terms. Full results of the review are provided in a separate report as part of this package.

C. Vendor Address Comparison

Internal Audit compared vendor and consultant addresses with employee and RC member addresses to determine if any discrepancies exist. The risk of a conflict of interest existing with vendors/consultants and employees or RC members appears low. Full results of the review are provided in a separate report as part of this package.

D. Peer Review Update

SCAG's internal audit function underwent peer review in 2015. The Association of Local Government Auditors (ALGA) performed the review. The peer review was to determine the extent SCAG's Internal Audit function adhered to Generally Accepted Auditing Standards (GAGAS) (also referred to as "Yellow Book" standards).² SCAG passed with major deficiency and ALGA representatives identified other issues.³

¹These included amendments for contracts 12-019-C1, 17-024-C1 as well as for RFP 18-012 and RFP 18-022.

²GAO, Government Auditing Standards 2011 Revision, GAO-18-568G, (July. 2018).

³The major deficiency was related to independence in that the internal audit function reported to the Chief Financial Officer (CFO) and performed audit work that fell within the CFO's line of responsibility. Other areas for improvement included: developing a quality control system and maintaining auditor independence given the type of work performed by the internal audit function.

SCAG was due for another peer review in 2018. However, after attending ALGA peer review training and meeting with ALGA representatives (including the individual who oversaw SCAG's prior peer review), Internal Audit chose to push back the peer review so as to better ensure passing with minimal deficiency as well as efficient use of ALGA resources.⁴ Two key issues affect Internal Audit's ability to fully pass given current resource constraints (e.g. a single person audit function and time necessary to ensure compliance). These are (1) non-audit services (e.g. pre-award reviews) affecting independence and (2) developing a sufficient quality assurance framework with single-person audit function.⁵

An option discussed was for SCAG's Internal Audit function to shift from Yellow Book standards to the *International Standards for the Professional Practice of Internal Auditing* (i.e. "Red Book" standards).⁶ Doing so should not impact work quality as Red Book standards are internationally recognized, and geared towards the practice of internal auditing (Yellow Book standards are frequently used by government audit organizations performing external audits); the internal audit function already consults Red Book standards; and ALGA performs peer reviews using either Yellow Book or Red Book standards depending on which an organization decides to use.⁷ Some key differences between the standards are that: (1) interpretation of non-audit services is more restrictive under Yellow Book standards, and can significantly affect the ability of an audit function to conduct a complete scope of services due to independence concerns, whereas Red Book standards state that details of any potential independence impairments be disclosed to appropriate parties (e.g. the Audit Committee); and (2) Yellow Book standards require peer reviews every three years whereas Red Book standards require them every five years.

Given that Red Book standards define internal auditing as an independent assurance and consulting activity designed to add value to an organization's operations, it better mirrors the type of work an internal audit function can perform. Moreover, an internal audit function can still maintain understanding of Yellow Book standards and consult them while performing audit work. Although switching to Red Book standards may not alleviate all concerns with establishing a quality assurance framework, ALGA has best practice literature that can be consulted. Internal Audit will continue to work with ALGA to improve our ability to meet Yellow Book and Red Book standards. The Audit

⁴ALGA peer review teams consist of volunteer auditors from a variety of organizations. SCAG's Internal Audit is required to volunteer its services as a member of a peer review team prior to undergoing peer review.

⁵SCAG traditionally has had one internal auditor. During the time of the 2015 ALGA peer review, SCAG's internal audit function had two staff. This allowed Internal Audit to develop in-house quality control procedures (e.g. review of audit work to ensure findings are sufficiently supported with evidence). SCAG previously referred to pre-award reviews as audits, but the peer review team observed that the work involved was more a nonaudit service, and that audit findings lacked sufficient evidence. If SCAG were to perform full pre-award audits, more resources would likely be required so as to meet audit requirements.

⁶(IIA) *International Standards for the Professional Practice of Internal Auditing (Standards)* (Jan. 2017).

⁷SCAG's *Internal Audit Charter* (approved March 2018) notes that the internal function will consult Red Book standards in addition to Yellow Book standards. The internal audit function develops an annual audit plan as well as an annual risk assessment, not required by Yellow Book standards. In addition, Red Book standards are promulgated by the Institute of Internal Auditors, the same organization that offers the certified internal auditor (CIA) qualification. The CIA qualification is the globally recognized certification for internal auditors, and SCAG requires audit staff to maintain either a Certified Public Accountant (CPA) or CIA qualification.

Committee may also provide input on which standards the agency should follow. If SCAG chooses to fully adopt Red Book standards, Internal Audit can update the audit charter accordingly, and describe the changes at a future Audit Committee meeting.

E. External Audits

SCAG had undergone multiple concurrent external audits. Vavrinek, Trine, Day, and Company, LLP (VTD) performed an audit on SCAG's FY 2017-18 financial statements. Caltrans completed an incurred cost audit and is finishing an audit of SCAG's indirect cost allocation plan (ICAP). The California Department of Finance (DOF) is performing an audit of California Office of Traffic and Safety (OTS) grant PS1725 awarded to SCAG.

- Financial Statement Audit

SCAG's external independent financial auditors completed audit work of SCAG's FY 2017-18 financial statements. They will present the results during today's Audit Committee meeting. This is the second year VTD has performed the financial statement audit.

- Incurred Cost and ICAP Audits

Caltrans completed an incurred cost audit of SCAG in September 2018.⁸ SCAG management briefed the Audit Committee about the findings during a special meeting of the Audit Committee in October 2018. Minutes from that meeting are provided as part of this package. SCAG is awaiting a corrective action plan from Caltrans. The corrective action plan will provide actions/steps for SCAG to take in order to address audit findings. Caltrans plans to provide the corrective action plan to SCAG in January as the Federal Highways Administration (FHWA) and the Federal Transit Administration (FTA) have asked to review the plan. SCAG will provide the Audit Committee with an update after it receives the corrective action plan from Caltrans.

SCAG is still waiting for the results of the ICAP audit. Once SCAG's receives the final ICAP audit report, it will provide the results to the Audit Committee.

- OTS grant PS1725 Audit

DOF started audit work in December 2018. The focus of the audit is on whether grant expenditures claimed were in compliance with grant requirements as well as whether grant objectives were completed per grant requirements. DOF plans to complete the audit in February 2019. SCAG will provide the results of the audit to the Audit Committee.

F. Ethics Hotline Monitoring

SCAG has not received any reports via the Ethics Hotline since the last regular Audit Committee meeting in August, 2018. All prior reports have been reviewed and all cases have been closed.

FISCAL IMPACT:

None

⁸Caltrans, *Southern California Association of Governments Incurred Cost Audit*, (Sacramento, CA: Sept. 21, 2018).