

SOUTHERN CALIFORNIA



**ASSOCIATION of  
GOVERNMENTS**

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**Officers**

President

Greg Pettis, Cathedral City

First Vice President

Carl Morehouse, San Buenaventura

Second Vice President

Cheryl Viegas-Walker, El Centro

Immediate Past President

Glen Becerra, Simi Valley

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Greg Pettis, Cathedral City

**Policy Committee Chairs**

Community, Economic and

Human Development

Margaret Finlay, Duarte

Energy & Environment

James Johnson, Long Beach

Transportation

Keith Millhouse, Ventura County

Transportation Commission

## MEETING OF THE

# AUDIT COMMITTEE

***Tuesday, March 11, 2014***

***10:00 a.m. – 11:00 a.m.***

**SCAG Offices  
818 W. 7<sup>th</sup> Street, 12<sup>th</sup> Floor  
Policy Committee Rm. A  
Los Angeles, CA 90017  
(213) 236-1800**

## Teleconference and Videoconference will be available

(Location information included in packet)

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 [summers@scag.ca.gov](mailto:summers@scag.ca.gov).

Agendas & Minutes for the Audit Committee are also available at:

[www.scag.ca.gov/committees.htm](http://www.scag.ca.gov/committees.htm)

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) 236-1993. We request at least 72 hours (three days) notice to provide reasonable accommodations. We prefer more notice if possible. We will make every effort to arrange for assistance as soon as possible.

***Audit Committee Membership  
March 11, 2014***

**Members**

1. Hon. Cheryl Viegas-Walker, El Centro (**Chair**)
2. Hon. Greg Pettis, Cathedral City
3. Hon. Glen Becerra, Simi Valley
4. Hon. Carl Morehouse, San Buenaventura
5. Hon. Margaret Finlay, Duarte (**Vice Chair**)
6. Hon. Leroy Mills, Cypress
7. Hon. Edward H. J. Wilson, Signal Hill

**Representing**

**District 1, SCAG, 2<sup>nd</sup> Vice-President**  
**District 2, SCAG, President**  
**District 46, SCAG, Imm. Past President**  
**District 47, SCAG, 1<sup>st</sup> Vice-President**  
**District 35**  
**District 18**  
**Gateway Cities COG**

**Teleconference Locations**

Hon. Greg Pettis  
Marriott Wardman Park Hotel  
2660 Woodley Road NW  
Washington, DC 20008

Hon. Glen Becerra  
Southern California Edison  
2244 Walnut Grove Ave.  
Rosemead, CA 91770

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

**Videoconference Locations**

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

Orange County SCAG Office\*  
600 South Main, Suite 906  
Orange, CA 92863

# AUDIT COMMITTEE AGENDA MARCH 11, 2014

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TIME PG#

*The Audit Committee may consider and act upon any of the items listed on the agenda regardless of whether they are listed as information or action items.*

## CALL TO ORDER & PLEDGE OF ALLEGIANCE

*(Hon. Cheryl Viegas-Walker, Chair)*

## ROLL CALL

**PUBLIC COMMENT PERIOD** – Members of the public desiring to speak on items on the agenda, or items not on the agenda, but within the purview of the Audit Committee must fill out and present a speaker’s card to the Assistant prior to speaking. Comments will be limited to three (3) minutes per speaker provided that the Chair has the discretion to reduce this time limit based on the number of speakers. The Chair may limit the total time for all public comments to twenty (20) minutes.

## REVIEW and PRIORITIZE AGENDA ITEMS

### CONSENT CALENDAR

#### Approval Items

- |   |            |  |   |
|---|------------|--|---|
| 1. <u>Minutes of the December 4, 2013 Meeting</u> | Attachment |  | 1 |
|---|------------|--|---|

### ACTION ITEMS

- |  |            |        |   |
|--|------------|--------|---|
| 2. <u>FY 2013-14 External Auditor Selection</u><br><i>(Basil Panas, Chief Financial Officer)</i> | Attachment | 10 min | 5 |
|--|------------|--------|---|

**Recommended Action:** Review selected External Auditor as recommended by the Proposal Review Committee (PRC), and make a formal recommendation to the Regional Council regarding the appointment thereof.

- |   |            |        |   |
|---|------------|--------|---|
| 3. <u>SCAG Financial Reporting</u><br><i>(Basil Panas, Chief Financial Officer)</i> | Attachment | 10 min | 7 |
|---|------------|--------|---|

**Recommended Action:** Review and discuss options presented.

### INFORMATION ITEMS

- |   |            |        |    |
|---|------------|--------|----|
| 4. <u>Internal Audit Status Report</u><br><i>(Richard Howard, Internal Auditor)</i> | Attachment | 5 min  | 9  |
| 5. <u>Travel Expense Audit Report</u><br><i>(Richard Howard, Internal Auditor)</i>  | Attachment | 10 min | 11 |

# AUDIT COMMITTEE AGENDA MARCH 11, 2014

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		<i>TIME</i>	<i>PG#</i>
6. <u>Project Management Audit Report</u> <i>(Richard Howard, Internal Auditor)</i>	Attachment	10 min	13

## **FUTURE AGENDA ITEMS**

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

## **STAFF REPORT**

## **ANNOUNCEMENTS**

## **ADJOURNMENT**

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Audit Committee  
of the  
Southern California Association of Governments

December 4, 2013

*Minutes*

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

The Audit Committee held its meeting at the SCAG offices in downtown Los Angeles.

**Members Present**

**Representing**

Hon. Cheryl Viegas-Walker, El Centro, ( <b>Chair</b> )	District 1, SCAG 2 <sup>nd</sup> Vice-President
Hon. Greg Pettis, Cathedral City	District 2, SCAG President (Via Teleconference)
Hon. Glen Becerra, Simi Valley	District 46, SCAG Imm. Past President (Via Teleconference)
Hon. Margaret Finlay, Duarte, ( <b>Vice Chair</b> )	District 35
Hon. Leroy Mills, Cypress	District 18 (Via Videoconference)
Hon. Edward H. J. Wilson, Signal Hill	Gateway Cities COG (Via Teleconference)

**Members Not Present**

Hon. Carl Morehouse, San Buenaventura	District 47, SCAG 1st Vice-President
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**CALL TO ORDER & PLEDGE OF ALLEGIANCE**

Hon. Cheryl Viegas-Walker, Chair, called the meeting to order at 10:00 a.m.

**ROLL CALL**

A roll call was taken at 10:00 a.m. It was determined that a quorum was not present.

**PUBLIC COMMENT PERIOD**

None.

**REVIEW and PRIORITIZE AGENDA ITEMS**

Due to the absence of a quorum at the start of the meeting, the IT Audit Update report was presented until a quorum was present. A quorum was established at 10:05 a.m., at which time the Audit Committee considered the remaining agenda items for action.

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Audit Committee  
of the  
Southern California Association of Governments

December 4, 2013

*Minutes*

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**CONSENT CALENDAR**

**Approval Items**

1. Minutes of May 14, 2013 Meeting

A motion was made (Finlay) to approve the Consent Calendar Approval Items. Motion was seconded (Pettis). A roll call vote was taken. Motion passed with Councilmember Mills abstaining from the vote.

**ACTION ITEM**

2. Internal Control System

Richard Howard, Internal Auditor, requested approval of the Internal Control System which was previously discussed at the last Audit Committee meeting on May 14, 2013.

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

A motion was made (Finlay) to approve the Internal Control System Item. Motion was seconded (Mills). A roll call vote was taken. Motion passed.

**INFORMATION ITEMS**

3. Actuarial Report for Other Post-Employment Benefits

Basil Panas, Chief Financial Officer, introduced Ms. Marilyn Jones, Consulting Actuary, from SCAG's outside independent actuarial firm of Nyhart Epler. SCAG is required by the California Employers' Retirement Benefit Trust (CERBT), of which SCAG is a member, to obtain a biennial actuarial study of its Other Post-Employment Benefits (OPEB). In the case of SCAG, the OPEB are retiree medical benefits. Ms. Jones provided an updated actuarial valuation report of SCAG's retiree health program as of June 30, 2013, in a PowerPoint presentation that included the following highlights:

- An estimate of SCAG's Liability and Unfunded Accrued Liability for Retiree Health Benefits
- Determination of Fiscal Year 2014-15 and 2015/16 Annual Required Contributions (ARC)
- Projected Cash Flows and Financial Results
- Benefit Plan Provisions and Valuation Data
- Actuarial Assumptions and Methods

SCAG staff, along with Ms. Jones, responded to the comments and questions expressed by the Committee members.

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Audit Committee  
of the  
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Hon. Cheryl Viegas-Walker, Chair, asked that SCAG's updated actuarial valuation report be presented to the Regional Council next month.

Hon. Viegas-Walker, on behalf of the Audit Committee, expressed appreciation to Ms. Jones for an excellent actuarial presentation and concluded the discussion.

4. FY 2012-13 Preliminary External Financial Audit

Basil Panas, Chief Financial Officer, introduced Ms. Peggy McBride, Principal and Ms. Linda Narciso, Manager, Vasquez & Company LLC, SCAG's outside independent auditors.

Ms. McBride and Ms. Narciso provided a comprehensive overview of SCAG's FY 2012-13 preliminary audit findings that included the following analysis:

- Summary of Audit Results
- Financial Audit Statements
- Report on Internal Control Structure and Compliance with Laws & Regulations
- Single Audit

Ms. McBride described the scope of the key audit focus areas, and risk assessment procedures, which included fraud considerations, and the Single Audit testing procedures. She noted that the automatic analysis testing was performed using the Data Analysis Software (IDEA). She informed the Committee there were no audit findings or recommendations for improvement.

Hon. Cheryl Viegas-Walker, Chair, asked the auditors in the future to extend the audit scope to include components related to the Regional Council. Staff assured the Committee that this would be addressed and noted that Vasquez & Company was nearing the end of their contract with SCAG. A Request For Proposal (RFP) was being initiated for the FY 2013-14 audit program.

Ms. Narciso provided a brief summary of the financial audit statements. At the conclusion of their presentations, it was noted that there was an Unqualified Opinion, also referred to as a "clean" opinion on SCAG's financial statements, Internal Controls and Compliance; and the Auditors' Required Communication to the Committee was given.

Staff and the audit team responded on the comments and questions expressed by the Councilmembers.

Hon. Glen Becerra inquired about staff or the auditors' familiarity with a government financial reporting transparency software program called "OpenGov." He asked staff to provide a report about the software program at the next Audit Committee meeting.

The Audit Committee members congratulated the financial staff and the audit team for their efforts with developing a comprehensive audit presentation.



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Audit Committee  
of the  
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December 4, 2013

*Minutes*

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5. Internal Audit Status Report

Richard Howard, Internal Auditor, discussed highlights of the internal audit report and provided an update of four (4) pre-award contract audits that were completed since the last Audit Committee meeting on May 14, 2013.

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

6. IT Audit Update Report

Catherine Kirschbaum, Chief Information Officer, reported the progress of the remaining Information Technology (IT) action item recommended for improvement by the IT Audit conducted in FY 2011: *Business Contingency Planning*.

Ms. Kirschbaum noted that the IT Strategic Plan project list was completed and that the IT Strategic Plan will be used to prepare the FY 2014-2015 budget. She pointed out that some objectives and goals were completed on the final line item, "Business Contingency Planning," including the successful completion of the internal staff testing of the new emergency notification system, Blackboard Connect. Blackboard Connect is a broadcast system that sends emergency or pre-scheduled notifications by phone, text message and email. The next phase of emergency notification testing will be conducted with the Audit Committee members, then with the Regional Council and other Committee members.

Emergency notification scenarios were provided by staff. Staff also responded to the comments and questions expressed by the Committee members.

**FUTURE AGENDA ITEMS**

- A report on "OpenGov" Transparency Software
- FY14 Internal Audit Workplan

**ANNOUNCEMENTS**

No Announcements were made.

**ADJOURNMENT**

Hon. Cheryl Viegas-Walker, Chair, adjourned the meeting at 11:45 a.m. The next regular meeting of the Audit Committee will be determined at a later date.

**Minutes Approved by:**



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Basil Panas, Chief Financial Officer  
Staff to the Audit Committee

# REPORT

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**DATE:** March 11, 2014  
**TO:** Audit Committee  
**FROM:** Basil Panas, Chief Financial Officer, (213) 236-1817, panas@scag.ca.gov  
**SUBJECT:** FY 2013-14 External Auditor Selection

**EXECUTIVE DIRECTOR'S APPROVAL:**

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**RECOMMENDED ACTION:**

Review selected External Auditor as recommended by the Proposal Review Committee (PRC), and make a formal recommendation to the Regional Council regarding the appointment thereof.

**EXECUTIVE SUMMARY:**

*The selection process for selecting SCAG's next external auditor was completed on March 10, 2014. The Chair of the Audit Committee, Councilmember Cheryl Viegas-Walker will announce the selection today. The PRC recommends that the new contract be for one year with two option years.*

**STRATEGIC PLAN:**

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

**BACKGROUND:**

SCAG retains the services of a CPA firm to conduct the annual audit of its financial statements, as presented in its Comprehensive Annual Financial Report, and to prepare a Single Audit Report. The auditing firm reports to the Audit Committee. For the last three years, these services were performed by Vasquez and Co., LLP. SCAG issued a Request for Proposal (RFP) for audit services commencing with the 2013-14 fiscal year. Interviews of the PRC's finalist were conducted on March 10, 2014 and a selection was made.

**FISCAL IMPACT:**

The FY 2014-15 Indirect Cost budget includes \$67,000 for audit services.

**ATTACHMENT:**

None.

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# REPORT

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**DATE:** March 11, 2014  
**TO:** Audit Committee  
**FROM:** Basil Panas, Chief Financial Officer, (213) 236-1817, panas@scag.ca.gov  
**SUBJECT:** SCAG Financial Reporting

## **EXECUTIVE DIRECTOR'S APPROVAL:**

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### **RECOMMENDED ACTION:**

Review and discuss below options.

### **EXECUTIVE SUMMARY:**

*Staff was requested to review current practice and review opportunity for increasing public awareness of SCAG financial transactions. A growing number of cities in the SCAG area have enhanced their websites so as to provide easy access to basic budget and financial data. Staff have researched the options described below.*

### **STRATEGIC PLAN:**

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

### **BACKGROUND:**

SCAG currently provides monthly financial reports including financial transactions and this information is included in the SCAG website. SCAG budget and budget amendments are also included on the SCAG website and the budget approval includes a 30-day public comment process including all 191 member cities.

At the last meeting, Councilmember Glen Becerra suggested that staff become familiar with OpenGov.com which is a commercial start-up in the San Francisco Bay Area that sells services designed to provide easy access to governments' financial data. The website takes information and formats it to its own software design purposes. The City of Simi Valley is a subscriber and its data can be accessed at: <http://www.ci.simi-valley.ca.us/index.aspx?page=86>. This link leads to a page with a paragraph titled "Budget Transparency." Click on the link at the end of that paragraph to see Simi Valley's data.

OpenGov.com is a subscription service whereby SCAG would send in an Excel file of financial data on a frequency of our choosing. Some agencies post annual data, others monthly. OpenGov.com would load the data into their software and it would then be accessed by clicking on a link on SCAG's website (just as you did with Simi Valley). The cost to an agency similar to SCAG would be about \$6,000 to \$10,000 annually for monthly updates and would require a procurement process

Besides Simi Valley, several SCAG member cities are or will become customers: Thousand Oaks, Beverly Hills, LA, Anaheim, Bell, and Riverside.

As a less costly alternative, staff discussed the option of creating a consolidated financial webpage for a library of CFO reports, or developing a web platform in-house following the Audit Committee suggestions. Staff is mindful that SCAG's primary stakeholders are its member cities who are typically concerned with

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issues of timely delivery of cutting-edge projects and perhaps that could be the emphasis of further public clarification.

**FISCAL IMPACT:**

Pending further discussion.

**ATTACHMENT:**

None.

# REPORT

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**DATE:** March 11, 2014

**TO:** Audit Committee

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

**SUBJECT:** Internal Audit Status Report

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**RECOMMENDED ACTION:**

For Information Only – No Action Required.

**STRATEGIC PLAN:**

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

**BACKGROUND:**

Since the last Audit Committee meeting December 4, 2013, three (3) pre-award audits of contract proposals were completed.

The three consist of the following:

1. Sierra Group Labor Rate
2. 20/20 Network Labor Rate
3. AECOM Technical \$449,954

As mentioned in December, a review of employee travel expenses was begun in June. The review involved checking compliance with federal, state and SCAG travel regulations and policies. The review is ongoing and started with the employees who incurred the highest travel expenses. The audit results are noted in the “Travel Expense Audit Report” which is included in today’s agenda packet.

Also as mentioned in the December meeting, an audit of Project Management was selected based on a Risk Assessment review by the Audit Committee members and SCAG executive team members. The audit began in February 2014 and progress so far is noted in the “Project Management Audit Report” which is also included in today’s agenda packet.

**FISCAL IMPACT:**

None.

**ATTACHMENTS:**

None.

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# REPORT

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**DATE:** March 11, 2014

**TO:** Audit Committee

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

**SUBJECT:** Travel Expense Audit Report

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**RECOMMENDED ACTION:**

For Information Only – No Action Required.

**STRATEGIC PLAN:**

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

**BACKGROUND:**

We have completed an audit of selected travel expense reimbursements made by the Southern California Association of Governments (SCAG) to its employees for the fiscal year ended June 30, 2013. The purpose of the audit was to determine if the reimbursed expenses were reasonable, allowable and in compliance with federal and state laws and regulations and in compliance with SCAG's policies and procedures related to travel expenditures.

The audit was performed in accordance with the appropriate professional standards related to staff independence, competence, due professional care, planning, working paper preparation and reporting, as presented in the Government Accountability Office's (GAO's) Government Auditing Standards ("Yellow Book"). We did not perform an audit of, and do not plan to render an opinion on, SCAG's financial statements taken as a whole. These standards require that we plan and perform the audit to obtain reasonable assurance that the data and records are free of material misstatements. Our audit included examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. It also included assessing the accounting principles used. We believe that our audit provides a reasonable basis for our opinion.

The scope of the audit was limited to selected expense reimbursements for the year ended June 30, 2013 and also certain prior years. The objectives of the audit were to:

- a) Determine whether the reimbursed expenses were reasonable and allowable in conformity with the applicable federal and state regulations; and,
- b) Determine whether the amounts reimbursed were correctly paid according to SCAG policies.



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The audit revealed that the great majority of the expenses reimbursed were reasonable and allowable and in conformity with applicable federal and state regulations. There were some expenses that did not conform to SCAG policies and were repaid to SCAG subsequent to the audit.

## **Results of Audit:**

We reviewed the travel expense reimbursements for the five employees who had the highest amount of expenses for the period from July 1, 2012 through June 30, 2013. The review consisted of examining the expense reimbursements and the supporting details and receipts. The details were checked against the federal, state and SCAG requirements for reimbursement of expenses.

The total amount of expense reimbursements reviewed was \$178,368. The two highest employees' reimbursements included questioned items such as inadequate receipts, lack of detail for business meetings and submitting commuting miles as part of business miles. These items were repaid to SCAG. The review of the three next highest employees' expenses did not reveal any questioned items.

## **FISCAL IMPACT:**

None.

## **ATTACHMENTS:**

None.

# REPORT

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**DATE:** March 11, 2014

**TO:** Audit Committee

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

**SUBJECT:** Project Management Audit Report

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**RECOMMENDED ACTION:**

For Information Only – No Action Required.

**STRATEGIC PLAN:**

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

**BACKGROUND:**

At the beginning of this fiscal year the Audit Committee and SCAG's executive management team completed a Risk Assessment of areas of SCAG that should be audited. The area with the highest score in the Risk Assessment was Project Management. Internal Audit began a review of Project Management in February 2014. The scope of the review covers projects that started in fiscal year 2012-2013 and that were completed by February 2014. The review is expected to be completed by June 30, 2014 with results available at the next Audit Committee meeting after that date.

**FISCAL IMPACT:**

None.

**ATTACHMENTS:**

None.