



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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## REMOTE PARTICIPATION ONLY

# AUDIT COMMITTEE

*Tuesday, October 6, 2020*  
*1:00 p.m. – 3:00 p.m.*

### ***PUBLIC ADVISORY***

Given recent public health directives limiting public gatherings due to the threat of COVID-19 and in compliance with the Governor's recent Executive Order N-29-20, the meeting will be held telephonically and electronically.

***Please see next page for detailed instructions on how to participate in the meeting.***

### ***PUBLIC COMMENTS***

In advance of the meeting, please submit Public Comments by email at: [ePublicComment@scag.ca.gov](mailto:ePublicComment@scag.ca.gov). All Public Comments received will be included in the official record of the meeting.

If members of the public wish to review the attachments or have any questions on any of the agenda items, please contact Peter Waggonner at (213) 630-1402 or via email at [waggonner@scag.ca.gov](mailto:waggonner@scag.ca.gov). Agendas & Minutes are also available at: [www.scag.ca.gov/committees](http://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) 630-1402. 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.



## Detailed Instructions for Participating in the Meeting

SCAG is providing multiple options to view or participate in the meeting:

### **To Join By Zoom**

1. Click the following link: <https://scag.zoom.us/j/316673359>.
2. If Zoom is not already installed on your computer, click “download & run Zoom” on the launch page and press “run” when prompted by your browser. If Zoom has previously been installed on your computer, please allow a few moments for the application to launch automatically.
3. Select “Join Audio via Computer.”
4. The virtual conference room will open. If you receive a message reading, “Please wait for the host to start this meeting,” simply remain in the room until the meeting begins.

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1. Call **(669) 900-6833** to access the conference room. Given high call volumes recently experienced by Zoom, please continue calling until you connect successfully.
2. Enter the **Meeting ID: 316 673 359**, followed by #.
3. Indicate that you are a participant by pressing # to continue.
4. Remain on the line if the meeting has not yet started.

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The public is encouraged to submit comments by sending an email to: [ePublicComment@scag.ca.gov](mailto:ePublicComment@scag.ca.gov). All written comments received before and during the Public Comment period will be read by SCAG staff (up to 3 minutes) and included as part of the official record of the meeting. The Chair has the discretion to reduce the time limit based upon the number of e-comments received and may limit the total time for all public comments to twenty (20) minutes.

## To view past meeting videos: <http://scag.iqm2.com/Citizens/>

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### **AC - Audit Committee Members – October 2020**

- 1. Hon. Jan C. Harnik**  
Chair, RCTC
- 2. Hon. Sean Ashton**  
Downey, RC District 25
- 3. Hon. Michael Carroll**  
Irvine, RC District 14
- 4. Hon. Margaret Finlay**  
Duarte, RC District 35
- 5. Hon. Clint Lorimore**  
Eastvale, RC District 4
- 6. Hon. Steve Manos**  
Lake Elsinore, RC District 63
- 7. Hon. Fred Minagar**  
Laguna Niguel, RC District 12
- 8. Sup. Linda Parks**  
Ventura County
- 9. Hon. Carmen Ramirez**  
Oxnard, RC District 45
- 10. Hon. Ali Saleh**  
Bell, RC District 27
- 11. Hon. Marty Simonoff**  
Brea, RC District 22
- 12. Hon. Cheryl Viegas-Walker**  
El Centro, RC District 1
- 13. Hon. Alan Wapner**  
SBCTA Representative
- 14. Hon. Edward Wilson**  
Signal Hill, GCCOG

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## AUDIT COMMITTEE AGENDA

Southern California Association of Governments  
Remote Participation Only  
**Tuesday, October 6, 2020**  
**1:00 PM**

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

### **CALL TO ORDER AND PLEDGE OF ALLEGIANCE**

*(The Honorable Jan Harnik, Chair)*

### **PUBLIC COMMENT PERIOD**

The public is encouraged to submit comments by sending an email to [ePublicComment@scag.ca.gov](mailto:ePublicComment@scag.ca.gov). Written comments will be read by SCAG staff up to three (3) minutes and included as part of the official record of the meeting. The Chair has the discretion to reduce the time limit based upon the number of e-comments received and may limit the total time for all public comments to twenty (20) minutes.

### **REVIEW AND PRIORITIZE AGENDA ITEMS**

#### **SELECTION OF VICE CHAIR**

#### **CONSENT CALENDAR**

##### Approval Item

1. Minutes of the April 29, 2020 Meeting
2. Audit Committee Meeting Schedule
3. Internal Audit Charter

#### **ACTION/DISCUSSION ITEM**

4. Annual Audit Plan 15 Mins.  
*(Josh Margraf, Internal Auditor)*

##### **RECOMMENDED ACTION:**

Review and approve the fiscal year (FY) 2021 audit plan.

#### **INFORMATION ITEMS**

5. Project Management Process Improvement and Audit Status 20 Mins.  
*(Kome Ajise, Executive Director)*
6. Internal Audit Status 15 Mins.  
*(Josh Margraf, Internal Auditor)*

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## AUDIT COMMITTEE AGENDA

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**FUTURE AGENDA ITEM/S**

**ANNOUNCEMENT/S**

**ADJOURNMENT**

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# AGENDA ITEM 1 REPORT

Southern California Association of Governments  
Remote Participation Only  
**October 6, 2020**

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.iqm2.com/Citizens/>

The Audit Committee held its regular meeting telephonically and electronically given public health directives limiting public gatherings due to the threat of COVID-19 and in compliance with the Governor’s recent Executive Order N-29-20.

The meeting was called to order By Chair, Clint Lorimore. A quorum was present.

**Members Present:**

<b>Hon. Clint Lorimore, Chair</b>	<b><i>City of Eastvale</i></b>	<b>District 4</b>
Hon. Sean Ashton, Vice Chair	<i>Downey</i>	District 25
Hon. Margaret Clark	<i>Rosemead</i>	District 32
Hon. Margaret Finlay	<i>City of Duarte</i>	District 35
Hon. Steve Manos	<i>Lake Elsinore</i>	District 63
Hon. Fred Minagar	<i>Laguna Niguel</i>	District 12
Hon. Carmen Ramirez	<i>Oxnard</i>	District 45
Hon. Marty Simonoff	<i>Brea</i>	District 22
Hon. Cheryl Viegas-Walker	<i>El Centro</i>	District 1
Hon. Alan D. Wapner	<i>Ontario</i>	SBCTA

**Members Not Present**

Hon. Michael Carroll	<i>Irvine</i>	District 14
Sup. Linda Parks		Ventura County
Hon. Rex Richardson	<i>Long Beach</i>	District 29
Hon. Ali Saleh	<i>Bell</i>	District 27
Hon. Edward Wilson	<i>Signal Hill</i>	District 11

**CALL TO ORDER AND PLEDGE OF ALLEGIANCE**

Chair Clint Lorimore called the meeting to order at 10:30 a.m., and asked Councilmember Alan Wapner, City of Ontario, SBCTA, to lead the Pledge of Allegiance.

**ROLL CALL**

A roll call for attendance was made and it was determined that a quorum was present.

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### **PUBLIC COMMENT PERIOD**

There were no public comments.

### **REVIEW AND PRIORITIZE AGENDA ITEM**

There were no reprioritizations made.

### **CONSENT CALENDAR**

#### **Approval Item**

##### 1. Minutes of the January 29, 2020 Meeting

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

FOR: Ashton, Clark, Finlay, Lorimore, Manos, Ramirez, Simonoff, Viegas-Walker and Wapner (9).

AGAINST: None (0).

ABSTAIN: None (0).

### **INFORMATION ITEMS**

##### 2. Fiscal Year (FY) 2019-20 Briefing from Financial Auditors

Josh Margraf, Internal Auditor, introduced Roger Alfaro, Partner at Eide Bailly, LLP, which is the company performing SCAG's financial audit of FY 2019-20. Mr. Alfaro provided a presentation of Eide Bailly's audit planning process for FY 2019-20. The presentation included brief explanations of the following audit planning and risk assessment services to be provided:

- Preparation of the draft Comprehensive Annual Financial Report (CAFR);
  - Deliverables and 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;
  - For the Single Audit: express an opinion on compliance applicable to major federal programs;
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- Discussion of the roles and responsibility of the audit process, including Management's responsibilities in the planning process;
  - Planning and Risk Assessment's approach and testing; and
  - Audit timelines.

Mr. Alfaro reported that SCAG management would receive a report on Internal Controls and an Unmodified Opinion for its FY 2019-20 financial statements (CAFR), Single Audit, and Compliance Report later in the year.

Mr. Alfaro responded to comments and questions expressed by Committee members, including questions regarding assessments, auditor opinion on SCAG's internal controls, and clarification on how the "Stay at Home Order" would affect audit planning.

Mr. Alfaro commented that within the audit planning process, internal controls are evaluated and tested. If necessary, material weaknesses and recommendations on internal controls are reported. He also noted that Eide Bailly, LLP has experience in, and has previously conducted, audit work remotely; in addition, the firm has the ability to perform a very effective audit, confirm data and conduct interviews using secured software, Zoom, and other remote secured platforms.

Chair Lorimore thanked Mr. Alfaro for his presentation.

### 3. Project Management Process Improvement and Audit Status

Kome Ajise, Executive Director, provided updates on project management improvements and the Caltrans audit status since the last Audit Committee meeting held on January 29, 2020. He reported that SCAG had complied with all 39 Corrective Action Plans (CAPs) requirements and all are now completed. However, Caltrans has not yet to officially certify whether SCAG has met all CAP requirements. Additionally, as part of the Caltrans audit, and feedback, SCAG staff developed training to help further improve project management and procurement processes. He noted that mandatory project management training had been completed for most staff, and that training would continue monthly until all employees have completed it.

Mr. Ajise commented on the establishment of an Enterprise-Wide Project Management Office (EPMO), which is a major industry standard, and will be an important addition to the agency to help bring best practices to staff. He asked Debbie Dillon, Chief Strategy Officer, to provide additional highlights of the Enterprise-Wide Project Management Office program.

Ms. Dillon provided background information for the creation of the EPMO, which is intended to ensure that agency-wide project management practices will be embedded into agency procedures and consistently followed. She noted that as part of SCAG's employee development program, a



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qualified SCAG staff member was hired in the EPMO for a one-year rotational assignment. Ms. Dillon commented that the position would initially report to the Chief Strategy Officer and then transition to continuing the remaining work and process improvements established by the 4P's staff committee.

Ms. Dillon concluded that staff would continue to provide updates to the Committee.

#### 4. Risk Assessment Results

Joshua Margraf, Internal Auditor, provided a brief overview of the risk assessment process and results. He noted that as part of annual audit planning, a risk assessment input form, which helps determine audit priorities, was sent to AC members as well as SCAG management. This form highlighted key agency risk areas and asked respondents to rank those areas by degree of risk.

Mr. Margraf reported on the overall response rate, which was approximately 40 percent, and noted that not all respondents rated each risk area. However, most respondents rated each category and provided additional comments related to areas not listed on the risk assessment input form. He noted that most comments were related to previously ranked high risk areas of project management and procurement, which he stated was not surprising, as SCAG has been building up its project management procedures, and has been a current agency focus, with on-going mandatory training. Other comments mentioned consistency concerns between SCAG's Connect SoCal and the Program Environmental Impact Report (PEIR); the lack of sufficient resources to handle the volume of projects; and ensuring consistency across agency operations, including those areas where key staff members maintain specific knowledge.

Mr. Margraf noted that the results of the risk assessment would inform the annual audit plan that will be presented to the AC at an upcoming meeting.

#### 5. Lessons Learned – Pre-awards/Procurement

Joshua Margraf, Internal Auditor, provided a brief overview of lessons-learned gained from performing pre-award reviews (a non-audit service), and how these may help improve transparency and increase efficiencies regarding procurement. These lessons-learned included:

- Tracking procurement-related issues per consultant and sub-consultant can assist with procurement efficiency.
- Tracking and documenting consultant performance can provide additional information to the procurement process.
- Documenting, collecting, and tracking information related to SCAG independent cost estimates can aid staff in determining costs.

- Providing information and guidance on contract types could help with efficiency.

Mr. Margraf concluded by noting that SCAG has made some “quality of life improvements” and is making progress in terms of ensuring staff awareness regarding the agency’s project management process, which includes procurement of consultant services and various federal and state regulations. He noted that as SCAG continues to refine its project management training, and updates its procurement processes, it may want to incorporate these lessons-learned so as to enhance transparency and help minimize potential issues with future procurements, while helping to further streamline and speed up the process for staff.

#### 6. Internal Audit Status Report

Joshua Margraf, Internal Auditor, presented the Internal Audit Status Report, which lists work performed since the last Committee meeting. Mr. Margraf provided highlights of the report that included previous agenda items in this packet: risk assessment results, lessons-learned from performing pre-award reviews, and assistance in SCAG’s process improvement efforts with project management training. Regarding Ethics Hotline Monitoring, he noted that no new reports had been received since the last AC meeting in January, but that SCAG is working to complete an open case.

AC members had questions regarding Caltrans audit findings and if SCAG had met all the corrective requirements. Mr. Margraf directed the questions to Mr. Ajise, as he indicated that Internal Audit has not been primarily involved in responding to the findings. Mr. Ajise, Executive Director, responded that SCAG has complied with all 39 Corrective Action Plans (CAPs) requirements, which the agency deems completed, but that Caltrans has not made a final determination related to all CAP findings as well as questioned costs from the incurred cost audit, and that periodic reviews by Caltrans auditors may continue in order to certify and reassess SCAG’s actions in response to the CAPs as well as the extent improvements had been made. Mr. Ajise also responded to questions regarding staff reimbursements and expenses incurred relating to staff working remotely.

#### ADJOURNMENT

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

Respectfully submitted by:  
Carmen Summers  
Audit Committee Clerk

[MINUTES ARE UNOFFICIAL UNTIL APPROVED BY THE AUDIT COMMITTEE]

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**AGENDA ITEM 2**  
**REPORT**

Southern California Association of Governments  
Remote Participation Only  
**October 6, 2020**

**To:** Audit Committee (AC)  
**From:** Joshua Margraf, Internal Auditor,  
(213) 236-1890, margraf@scag.ca.gov  
**Subject:** Audit Committee Meeting Schedule

**EXECUTIVE DIRECTOR'S  
APPROVAL**

**RECOMMENDED ACTION:**

Determine and approve the 2020-2021 Audit Committee schedule.

**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 Committee meetings for this fiscal year.*

**STRATEGIC PLAN:**

This item supports SCAG's Strategic Plan Goal 7B: Maximize Efficiency and Effectiveness in Resource Allocation to Maintain Adequate Working Capital, Appropriate Reserves, and Investments, and Utilize Resources in a Timely and Responsible Fashion.

**BACKGROUND:**

Per SCAG's *Audit Committee Charter*, the Audit Committee is to meet on a regular basis, no less than three times per fiscal year, with authority to convene additional meetings as circumstances require.<sup>1</sup> Previously, Audit Committee meetings have been held on Tuesday afternoons from 2:30 p.m. – 4 p.m. or Wednesday mornings from 10:30 a.m. – 12:00 p.m. The meetings have been during the third Tuesday or Wednesday of the month they were held. Meeting dates and times have been based on the availability of Committee members. During last fiscal year, Wednesday mornings worked best for the members. Given the events of this year (e.g. the pandemic, completion of Connect So-Cal, among other things) SCAG is maintaining the same Committee structure, which includes last year's membership.

**FISCAL IMPACT:**

None

<sup>1</sup>SCAG, *Audit Committee Charter* (Jan. 2012).

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**AGENDA ITEM 3**  
**REPORT**

Southern California Association of Governments  
Remote Participation Only  
**October 6, 2020**

**To:** Audit Committee (AC)  
**From:** Joshua Margraf, Internal Auditor,  
(213) 236-1890, margraf@scag.ca.gov  
**Subject:** Internal Audit Charter

**EXECUTIVE DIRECTOR'S  
APPROVAL**

**RECOMMENDED ACTION:**

Review and approve to the 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 should be reviewed periodically and reflect input from the Audit Committee.*

**STRATEGIC PLAN:**

This item supports SCAG's Strategic Plan Goal 7B: Maximize Efficiency and Effectiveness in Resource Allocation to Maintain Adequate Working Capital, Appropriate Reserves, and Investments, and Utilize Resources in a Timely and Responsible Fashion.

**BACKGROUND:**

The *Internal Audit Charter* (Attachment I) establishes the internal audit function'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.<sup>1</sup> The attached *Internal Audit Charter* includes additions to the quality assurance section as well as minor language corrections. Internal Audit is not requesting any major changes to the charter.

<sup>1</sup>California Government Code § 1236 requires city/county/district employees conducting audits to follow certain standards. These include *International Standards for the Professional Practice of Internal Auditing (Standards)* as promulgated by the Institute of Internal Auditors or *Government Auditing Standards* as promulgated by the U.S. Government Accountability Office (GAO).

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The internal audit function follows the International Standards for the Professional Practice of Internal Auditing. These standards require periodic review of the internal audit charter, with best practices noting that the charter should be reviewed and approved annually by the governing body. Per the *Audit Committee Charter*, the Audit Committee reviews the internal audit function's charter.<sup>2</sup>

**FISCAL IMPACT:**

None

**ATTACHMENT(S):**

1. Draft Internal Audit Charter

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<sup>2</sup>SCAG, *Audit Committee Charter*, amended January 5, 2012. The *Audit Committee Charter* also notes that the Audit Committee is to review the Committee charter annually, requesting Regional Council approval for proposed changes.

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## 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 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.

### 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.

**QUALITY ASSURANCE**

*The internal audit function will develop and maintain a quality assurance and improvement program, to include an evaluation of conformance with auditing standards. The program will assess the efficiency and effectiveness of the internal audit function and help identify opportunities for improvement.*

**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

DRAFT





**AGENDA ITEM 4**  
**REPORT**

Southern California Association of Governments  
Remote Participation Only  
**October 6, 2020**

**To:** Audit Committee (AC)  
**From:** Joshua Margraf, Internal Auditor,  
(213) 236-1890, margraf@scag.ca.gov  
**Subject:** Annual Audit Plan

**EXECUTIVE DIRECTOR'S  
APPROVAL**

**RECOMMENDED ACTION:**

Review and approve the fiscal year (FY) 2021 audit plan.

**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 function developed its audit plan for FY 2021.*

**STRATEGIC PLAN:**

This item supports SCAG's Strategic Plan Goal 7B: Maximize Efficiency and Effectiveness in Resource Allocation to Maintain Adequate Working Capital, Appropriate Reserves, and Investments, and Utilize Resources in a Timely and Responsible Fashion.

**BACKGROUND:**

SCAG's Internal Audit department develops an annual audit plan to outline work for the fiscal year.<sup>1</sup> The plan is presented to the Audit Committee for review and approval. Work listed in the plan takes into account risks identified by Committee members and staff as well as audit findings (both external and internal).<sup>2</sup> The plan assumes annual total hours to be 2,080 (i.e. 40-hour workweek \* 52 weeks annually) given that the Internal Audit department consists of a single staff. The annual plan is flexible in that it can change based on Committee and agency priorities.<sup>3</sup>

<sup>1</sup>Audit standards require that the internal audit function establish a risk-based plan to determine priorities.

<sup>2</sup>Internal Audit reported on risks identified and rated by Committee members and staff as part of the annual risk assessment process at the April 2020 Committee meeting.

<sup>3</sup>Internal audit function hours are indirect—all hours are charged to 810-0120.14. Non-work time includes holidays, vacations, etc.

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Pre-award reviews of consultant cost proposals are a large part of the internal audit function's workload as SCAG relies on consultants to help carry out its planning responsibilities.<sup>4</sup> Work performed as part of pre-award reviews has identified lessons-learned with regard to project management, such as tracking procurement-related issues per consultant and sub-consultant, tracking consultant performance, and tracking information related to SCAG independent cost estimates (ICE), among other things.

Project management is a risk area. Responses from the annual risk assessment rated project management as the highest area of risk, followed by procurement and contract monitoring. Comments received during the risk assessment mentioned inconsistency in how staff and consultant efforts are managed, to include compliance with state and federal requirements, and a need for project management tools such as an invoice tracking system or an ability to search contracts by line item budgets. SCAG has actions underway to help address some of these risks. For instance, SCAG has held trainings related to project management to include educating staff on various federal and state regulations and discussing the importance of cost estimating. SCAG has also started a re-organization to include improving project management practices such as establishing an enterprise project management office to foster a standardized approach to project management and hiring an additional management analyst in the Planning Division to assist with project management and performance monitoring.

SCAG has operated predominantly via telework since March 2020 as a result of the coronavirus pandemic. During the pandemic, SCAG has been working to capture lessons-learned from the experience, to include how teleworking has impacted staff.

Table 1 provides the estimated hour breakdown for the proposed plan, followed by a brief description of the topic areas. The plan acts as a guide for the fiscal year, but, as mentioned above, can change based on Audit Committee and agency priorities. Given internal audit function resources, the plan is somewhat aggressive. However, Internal Audit will work with agency staff to make sure any areas of interest to the Committee are addressed.

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<sup>4</sup>Pre-award reviews are a non-audit service performed at the request of SCAG Contracts Department staff. Internal Audit performs the reviews after SCAG has selected a consultant proposal, but prior to executing a contract. They help identify whether costs in the proposal are supportable as well as identify potential risks that may be posed by a consultant. Results from these reviews help inform contract negotiations.

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Table 1: Proposed Internal Audit Plan FY 2021

#	Topic Area	Hours
1.	Pre-award Reviews	560
2.	Project Management	560
3.	Operations Efforts (Project Management and Pandemic)	140
4.	IT Efforts	130
5.	Ethics Hotline	130
6.	Audit Committee Meetings	120
7.	Non-work Time	120
8.	Assist - External Audits	80
9.	Risk Assessment – Audit Plan	80
10.	Staff Functions (Staff and Regional Council Meetings)	80
11.	Training to Maintain Certifications	80
<b>Total</b>		<b>2,080</b>

**Planned Audit Work (#s 2, 6, 9)**

Project Management

SCAG has made efforts to improve its project management processes/activities (for the purposes of this plan, project management is a general term that includes managing staff as well as consultant/nonprofit effort). For instance, SCAG hired consultants to assist with agency responses to the Caltrans audit findings as well as hired consultants to review project management practices. Below are reviews related to project management that Internal Audit plans to perform. Internal Audit also plans to follow-up on prior findings.

- *Review of Staff Labor Charging* – Includes reviewing the processes and procedures SCAG has in place related to labor charging (which is part of managing staff effort), to include determining staff hours as well as monitoring labor charges. In addition, the review would involve identifying any potential areas for improvement as well as the extent of compliance with applicable requirements.
- *Review of Procurement Process for Non-profits* – Includes reviewing the processes SCAG has in place for entering into agreements with nonprofits to determine the extent to which they comply with applicable requirements. SCAG relies on nonprofit effort in addition to consultant work to help carry out its projects. Though similar in some ways, requirements for nonprofits and private consultants regarding procurement of their services and use of federal funds are different. At times nonprofits have been listed as subconsultants for private firms or have bid on requests for proposals (RFP), which has raised questions regarding procurement requirements.
- *Review of Funding Source Requirements* – Includes reviewing how SCAG tracks funding source requirements to help ensure compliance with said requirements. In addition, the review would involve identifying any potential areas for improvement. Understanding funding requirements is important when entertaining potential projects and developing scopes of work with associated cost estimates as well as to help ensure adequate funding.

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Earlier this year Internal Audit identified potential lessons-learned stemming from pre-award work and would like to see the extent to which they are addressed as part of current project management improvement efforts.

#### Audit Committee Meetings

Preparation for Committee meetings that includes drafting audit reports, soliciting feedback from management and staff, and meeting with the Committee chair prior to the meetings. In cases when individuals outside the agency (e.g. external auditors) present information, coordinate with them.

#### Annual Risk Assessment and Audit Plan

Audit standards require that any plans for engagements must be based on a documented risk assessment. Internal Audit sends a risk assessment form to Committee members and agency management. The results of this process help inform the annual audit plan.

#### **Other/Consultative Services (#s 1, 3, 4, 5, 8)**

##### Pre-award Reviews

Internal Audit assists the Contracts Department by performing pre-award reviews of consultant proposals after a proposal is selected but prior to executing a contract. They help identify whether consultants' proposed rates are reasonable, allocable, and allowable, as well as any risks that may be posed by a consultant. The number of pre-award reviews requested can vary depending on the amount of proposals that come in.

##### Operations Efforts – Project Management and Pandemic

As mentioned above, SCAG is undertaking efforts to improve its project management practices, and has also been tracking lessons-learned related to telework operations due to the pandemic. Internal Audit will work with pertinent staff to provide updates to the Committee regarding both these efforts.

- Regarding project management, Internal Audit can assist as needed. Although the internal audit function cannot draft agency policies and procedures due to independence impairments, it can suggest areas of consideration as well as best practices based on criteria such as internal control standards.
- Regarding the pandemic, Internal Audit has performed pre-award reviews on proposals developed prior to government-wide stay at home orders, so scopes of work may have changed, which could impact overall costs. Also, there is potential for less monitoring of staff and consultant project efforts. Internal audit has shared these risks with management and can continue to provide information/suggestions as part of efforts to track lessons learned.

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- *Follow-up on Prior Findings* – Includes follow-up on previous Internal Audit findings, such as guidance for staff on developing independent cost estimates, extent to which SCAG guidance reflects current practices regarding invoicing, and updating the vendor list, among other things.

#### IT Efforts

SCAG has transitioned to a new IT service provider. In addition, SCAG is investing in critical infrastructure upgrades to include cloud computing. Updating SCAG's business continuity/recovery plan was noted as part of the risk assessment process because it currently reflects business processes that rely on paper operations, whereas the agency has moved to full telework as the result of the pandemic. Internal Audit will work with IT staff to provide updates to the Committee regarding agency IT initiatives and efforts.

#### Hotline Monitoring

Monitor and summarize reports made to SCAG's Ethics Hotline. Includes performing fact-finding and investigations. Estimated hours are based on number of reports made during the prior fiscal year and number of investigations requested.

#### Assist - External Audits

Currently the firm Eide Bailly is performing SCAG's annual financial audit. The number of hours for assisting with audits (e.g. responding to information requests, meeting with auditors, etc.) is roughly the same as prior years. SCAG's Finance Division has been SCAG's point of contact for external audits.

#### **Personnel (#s 7, 10, 11)**

Includes time related to (1) staff functions such as RC and staff meetings; (2) training required to maintain audit certifications; and (3) any holidays, vacation, or non-work time.

#### **FISCAL IMPACT:**

None



# AGENDA ITEM 5 REPORT

Southern California Association of Governments  
Remote Participation Only  
October 6, 2020

To: Audit Committee (AC)

EXECUTIVE DIRECTOR'S  
APPROVAL

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

Subject: Project Management Process Improvement and Audit Status

**RECOMMENDED ACTION:**

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 April 29, 2020 meeting, SCAG staff provided an update regarding the Caltrans Corrective Action Plans and Plan for Cost Substitution, Continuing Process Improvement and the Enterprise Project Management Office. This report provides a status update on those items and other agency efforts underway to support continuous improvement for project management and related processes, policies, and procedures.*

**BACKGROUND:**

**A. Corrective Action Plans - 100% Complete.**

As reported in January 2020 and April 2020, SCAG has complied with all 39 Corrective Action Plans (CAP) requirements and those changes to SCAG’s procedures, policies, and practices remain in place as a part of normal operations. The “4 Ps” Committee, led by the Chief Strategy Officer and Chief Financial Officer was acting as the oversight committee for those improvements. With the establishment of the Enterprise Project Management Office (EPMO) in May of 2020, the 4 P’s Committee has completed its work and the continuation of their efforts is now under the purview of the EPMO led by Chief Strategy Officer, Debbie Dillon.

1. On February 12, 2020, Caltrans informed SCAG that all issues in the Indirect Cost Allocation Plan audit were resolved, including acceptance of the Plan of Cost Substitution to offset the \$2,252,976 of disallowed costs.
2. On August 12, 2020, Caltrans informed SCAG that all issues in the Incurred Cost Audit were resolved, including acceptance of the Plan of Cost Substitution to offset the \$1,809,663 of

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the remaining disallowed costs. SCAG had previously paid \$338,986 of disallowed costs for this audit.

3. There is one remaining issue regarding the under-recovery of indirect costs in the amount of \$598,332 as of June 30, 2017 and we anticipate closure on this item in the next few months.
4. On September 17, 2020, SCAG Staff held a meeting with Caltrans Planning Programs staff to provide an update on the additional progress it has made as outlined below.

#### **B. Establishment of the EPMO and Continuing Process Improvement**

As discussed in the April report, SCAG advertised a one-year staff rotational assignment to help create an Enterprise-Wide Project Management Office. This rotational assignment is designed to provide a seasoned and highly skilled project management staff an opportunity to architect and design the office. The position, EPMO Lead Projects Manager, reports to the Chief Strategy Officer and was filled by Mike Jones in May 2020. Mike has more than 20 years of project management experience both at SCAG and in the private sector prior to joining SCAG.

The initial purpose of the EPMO is to provide agency wide project management tools, training, process improvement, and project reporting with the ultimate goal of having best in class project management methodologies and practices instituted agency wide. Under his leadership, the EPMO has embarked on a number of efforts since May which are highlighted below:

Additional improvements that have taken place or are in process since the April Audit Committee include the following:

Created an EPMO work plan that was shared with the Executive Team.

Mike Jones enrolled in Project Management Professional Certification preparation coursework to take the PMP exam in advance of offering similar opportunities to all existing and aspiring project managers at SCAG.

In the process of implementing a project management planning template that was developed by a consultant that the Planning Division hired and now is being handed off to the EPMO to implement. The EPMO helped identify superusers throughout the agency and they will receive training as additional support within business units. Training on the template will also be provided to all project managers in October. The training will be recorded and made available "on demand" on the SCAG Intranet in the Project Management Resources site.

The EPMO is assisting Finance business units with educating and streamlining access to various existing tools including the Solicitation Intake Form with is a matrix/checklist that assists project

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managers with compiling everything they need to begin a procurement properly and efficiently. This also includes going through all of the updated Finance Manuals to ensure all required forms are in a centralized location and easy to find and with hyperlinks. As well as in the process of creating check lists and guides to simplify the process of what to do and where to find the necessary information.

The EPMO has conducted an agency-wide survey about project management tools, practices, training and is in the process of holding focus groups throughout the agency with employees involved in project management to ensure that the EPMO is focused on both short term quick fixes and longer term strategies for achieving optimal project management practices and methodologies at SCAG.

Conducting a benchmarking survey with regional and statewide sister agencies to learn about and share best practices about project management. This may become a regular working group in the near future.

Additionally, SCAG continues to move away from Cost-Plus-Fixed Fee contracts in order to make the Lump Sum format its default contracting model. Of the 35 active procurements at September 18, 2020, twenty-three, or 66%, were structured as Lump Sum contracts with milestone payments. That payment structure requires less administration and is more attractive to potential bidders as long as the scope of work in the RFP is drafted with enough specificity. Contracts is working with Project Managers to develop each new scope of work to that level to maximize the number of Lump Sum contracts.

**FISCAL IMPACT:**

SCAG repaid \$338,986 of costs disallowed in the Incurred Cost Audit and avoided repaying \$1,809,663 by substituting eligible costs paid from local funds. No costs were repaid due to the Indirect Cost audit as the entire disallowance of \$2,252,976 was offset by substituting eligible costs paid from local funds.

**ATTACHMENT(S):**

1. SCAG FY 2014-15 Incurred Cost Audit Resolution Letter



**DEPARTMENT OF TRANSPORTATION**

OFFICE OF THE DIRECTOR  
 P.O. BOX 942873, MS-49  
 SACRAMENTO, CA 94273-0001  
 PHONE (916) 654-6130  
 FAX (916) 653-5776  
 TTY 711  
 www.dot.ca.gov



Making Conservation  
 a California Way of Life.

August 12, 2020

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

Dear Mr. Ajise:

On July 8, 2020, the California Department of Transportation (Caltrans) received the final corrective action documentation from the Southern California Association of Governments (SCAG) required to resolve the findings identified in the Fiscal Year 2014-15 Incurred Cost Audit.

SCAG provided adequate documentation to demonstrate implementation of the corrective actions through various updates to internal policies and procedures and staff training. Additionally, SCAG initiated a structural re-organization to create a Project Management Office to strengthen contract management responsibilities. Lastly, SCAG repaid disallowed costs to the Caltrans Division of Local Assistance in the amount of \$338,986 and submitted detailed financial reporting documentation to support SCAG's repayment of the \$1,809,603 disallowed costs in the method of cost substitution to the Caltrans Division of Transportation Planning.

Caltrans will continue to provide enhanced oversight of SCAG's procurements, time charging, and billing practices, and will closely monitor efforts to further develop the Project Management Office and Project Management Manual.

The Independent Office of Audits and Investigations may perform a follow-up review after all corrective actions were made to determine if SCAG has implemented adequate corrective measures for the audit findings and to ensure compliance with Caltrans agreements and federal and State rules and regulations.

Mr. Kome Ajise  
August 12, 2020  
Page 2

We appreciate the cooperation and coordination that SCAG has provided during this process. If you have any questions, please contact Erin Thompson at (916) 261-3326 or by email sent to Erin.Thompson@dot.ca.gov.

Sincerely,



JEANIE WARD-WALLER  
Deputy Director  
Planning and Modal Programs

c: John Bulinski, Director, Caltrans District 7  
Paul-Albert Marquez, Deputy Director, Planning, Goods Movement and Local Assistance, Caltrans District 7  
Mine Struhl, Chief, Office of Regional Planning, Caltrans District 7  
Ted Matley, Director of Planning and Program Development, Federal Transit Administration Region IX  
Darin Allan, Director of Financial Management and Program Oversight, Federal Transit Administration Region IX  
Tashia Clemons, Director of Planning and Environment, Federal Highway Administration  
Antonio Johnson, Planning and Air Quality Team Lead, Federal Highway Administration  
Marlon Flournoy, Chief, Division of Transportation Planning, Caltrans  
Dee Lam, Acting Chief, Division of Local Assistance, Caltrans  
Erin Thompson, Chief, Office of Regional Planning, Caltrans



**AGENDA ITEM 6**  
**REPORT**

Southern California Association of Governments  
Remote Participation Only  
**October 6, 2020**

**To:** Audit Committee (AC)  
**From:** Joshua Margraf, Internal Auditor,  
(213) 236-1890, margraf@scag.ca.gov  
**Subject:** Internal Audit Status

**EXECUTIVE DIRECTOR'S  
APPROVAL**

**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 performed multiple pre-award reviews; received updates regarding IT initiatives; reviewed the internal audit department charter; developed the annual internal audit plan; started review of SCAG's labor charging practices; and monitored SCAG's Ethics Hotline.

*A. Pre-award Reviews*

Table 1 list results of pre-award review work since the last Audit Committee meeting.<sup>1</sup>

<sup>1</sup>Pre-award reviews are non-audit services performed at the request of Contracts staff. A pre-award review request is typically based on one of 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.).

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**Table 1: Pre-award Reviews performed by Internal Audit**

<u>Contract Number (Consultant)</u>	<u>Proposal Amount</u>	<u>Questioned Costs</u>	<u>% of Proposed Amount</u>	<u>Final Contract Amount<sup>a</sup></u>
19-062 (Gruen Associates)	\$237,071	\$41,361	17.45%	\$227,474
20-028 (Alta Planning)	\$152,399	\$140	0.09%	\$149,977
20-034 (Alta Planning)	\$350,100	\$5,200	1.49%	\$300,211
20-036 (Walker Consultants)	\$111,359	\$9,378	8.42%	\$99,125
20-042 (Fehr & Peers)	\$98,187	\$1,012	1.03%	\$97,174
20-047 (KTUA)	\$249,395	\$58	0.02%	\$249,395
20-050 (KTUA)	\$249,448	\$12,770	5.12%	\$232,784
20-062 (Toole Design)	\$349,927	\$44,217	12.64%	\$297,194
20-063 (John Kaliski Architects)	\$199,968	\$37,040	18.52%	\$174,999
20-065 (IBI)	\$149,901	\$39,969	26.66%	\$141,528
Totals	\$2,147,755	\$191,145		\$1,969,861

<sup>a</sup>Questioned costs are not always sustained for various reasons, such as removal of subconsultants, shifting work to the prime consultant, and consultants providing additional information following the pre-award review, among other things. Contract negotiations can also reduce proposed costs.

Internal Audit completed multiple pre-award reviews since the last Committee meeting. Table 1 lists the results of pre-award reviews related to contracts that have been executed. Internal Audit has also completed pre-award reviews on contracts that have yet to be executed, and will report the results, including dollar amounts, at the next Committee meeting.<sup>2</sup>

**B. IT Update**

During last fiscal year (FY 2020), SCAG updated its competitive procurement for IT Managed Services by issuing a request for proposal (RFP) to solicit offers from multiple potential vendors. SCAG reviewed nine proposals and interviewed three vendors. SCAG selected EK Associates as its new IT service provider. The start date was July 1, 2020. Transitioning to a new IT service provider, even during ideal circumstances, is a major technical undertaking. Due to the unanticipated work-from-home scenario as a result of the COVID-19 pandemic, SCAG’s IT staff required more detailed planning, coordination, and expert communications to help transfer knowledge, updated standard operating procedures, and smoothly transition from the prior vendor to the new vendor by July 1. The transition has been successful while improving the user experience.

In addition to ensuring a smooth transition to the new provider, SCAG IT staff have merged different help desk functions into a single component—ServiceNow—that provides more comprehensive IT service management and reporting infrastructure as well as creates a better user experience. During the transition IT staff have emphasized upgrades to server monitoring tools and patching protocols as well as other best practices during the transition, and progress continues to be made with EK Associates. Further, staff working remotely continue to have access to high-quality support services 24x7 to ensure business continuity and productivity.

IT has also successfully deployed new laptops to all staff while working remotely. This effort included increasing security and reliability of equipment, and was started prior to the work-from-

<sup>2</sup>Internal Audit completed pre-award reviews for 13 contracts that have yet to be executed. These include: 20-031, 20-035, 20-044, 20-049, 20-052, 20-054, 20-055, 20-057, 20-069, 20-073, 20-074, 20-076, and 20-082.

home scenario, so IT adapted to prepare and migrate staff from older devices to newer ones, to include mailing new laptops and working with staff remotely to ensure transfer of files. Migration to new laptops occurred between April to July.

Finally, all agency meetings—including public meetings and voting—are supported virtually. SCAG's experience using Zoom prior to prolonged work-from-home as well as staff's ubiquitous use of Skype for Business has made the shift to virtual meetings on short notice relatively seamless.

#### *C. Annual Audit Plan*

Internal Audit has developed the annual internal audit plan. Work listed in the plan considers risk identified by Committee members and staff as well as findings from both external and internal audit findings. A separate report, including the internal audit plan, is included in the agenda package.

#### *D. Review of Labor Charging*

Internal Audit has started a review of labor charging that intends to look at the processes and procedures SCAG has in place related to labor charging, to include any potential areas for improvement as well as the extent of compliance with applicable requirements.<sup>3</sup> This review corresponds to the annual audit plan in that it is listed under planned audit work. SCAG has interim guidance available for staff and is in the process of finalizing written labor charging policies prior to beginning the fiscal year 2022 budget development process. Any findings from the review can help inform final policies and procedures. The aim is to present the results of the review at an upcoming Committee meeting.

#### *E. External Audits*

Eide Bailly is performing audit work on SCAG's FY 2019-20 financial statements. Management has indicated that SCAG has resolved the corrective actions from the Caltrans audits.

- Financial Statement Audit

SCAG's external independent financial auditors have been performing audit work on SCAG's FY 2019-20 financial statements. Eide Bailly plan to complete the audit and report the results to the Committee later in the fall.

- Incurred Cost and ICAP Audits

SCAG has submitted responses to Caltrans related to the audit findings in November and December 2019. Caltrans provided a letter indicating resolution as to the ICAP audit findings in February 2020 and the Incurred Cost findings in August 2020, which included repayment of \$338,986 to the Caltrans Division of Transportation Planning.

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<sup>3</sup>Per federal requirements (2 CFR 200.430), SCAG is required to have system of internal control which provides reasonable assurance that time charges are accurate, allowable, and properly allocated. In addition, labor charging should conform to the established written policy.

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*F. Ethics Hotline Monitoring*

SCAG has not received any new reports from the Ethics Hotline since the last Committee meeting in April. SCAG is in the process of closing out an existing report.