



SOUTHERN CALIFORNIA
ASSOCIATION OF GOVERNMENTS
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www.scag.ca.gov

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REMOTE PARTICIPATION ONLY

AUDIT COMMITTEE

Wednesday, October 20, 2021
10:30 a.m. – 12:00 p.m.

To Attend and Participate on Your Computer:
<https://scag.zoom.us/j/316673359>

To Attend and Participate by Phone:
Call-in Number: 1-669-900-6833
Meeting ID: 316 673 359

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

PUBLIC ADVISORY

Given the declared state of emergency (pursuant to State of Emergency Proclamation dated March 4, 2020) and local public health directives imposing and recommending social distancing measures due to the threat of COVID-19, and pursuant to Government Code Section 54953(e)(1)(A), the meeting will be held telephonically and electronically.

If members of the public wish to review the attachments or have any questions on any of the agenda items, please contact Maggie Aguilar at (213) 630-1420 or via email at aguilarm@scag.ca.gov. Agendas & Minutes are also available at: www.scag.ca.gov/committees.

SCAG, in accordance with the Americans with Disabilities Act (ADA), will accommodate persons who require a modification of accommodation in order to participate in this meeting. SCAG is also committed to helping people with limited proficiency in the English language access the agency's essential public information and services. You can request such assistance by calling (213) 630-1420. 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.



Instructions for Public Comments

You may submit public comments in two (2) ways:

1. **In Writing:** Submit written comments via email to: ePublicComment@scag.ca.gov by 5pm on Tuesday, October 19, 2021. You are **not** required to submit public comments in writing or in advance of the meeting; this option is offered as a convenience should you desire not to provide comments in real time as described below.

All written comments received after 5pm on Tuesday, October 19, 2021, will be announced and included as part of the official record of the meeting.

2. **In Real Time:** If participating in real time via Zoom or phone, during the Public Comment Period, use the “raise hand” function on your computer or *9 by phone and wait for SCAG staff to announce your name/phone number. SCAG staff will unmute your line when it is your turn to speak. Limit oral comments to 3 minutes, or as otherwise directed by the presiding officer.

If unable to connect by Zoom or phone and you wish to make a comment, you may submit written comments via email to: ePublicComment@scag.ca.gov.

In accordance with SCAG’s Regional Council Policy, Article VI, Section H and California Government Code Section 54957.9, if a SCAG meeting is “willfully interrupted” and the “orderly conduct of the meeting” becomes unfeasible, the presiding officer or the Chair of the legislative body may order the removal of the individuals who are disrupting the meeting.

OUR MISSION

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

OUR VISION

Southern California’s Catalyst for a Brighter Future

OUR CORE VALUES

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



Instructions for Participating in the Meeting

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

To Participate and Provide Verbal Comments on Your Computer

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.
5. During the Public Comment Period, use the “raise hand” function located in the participants’ window and wait for SCAG staff to announce your name. SCAG staff will unmute your line when it is your turn to speak. Limit oral comments to 3 minutes, or as otherwise directed by the presiding officer.

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1. Call **(669) 900-6833** to access the conference room. Given high call volumes recently experienced by Zoom, please continue dialing 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. You will hear audio of the meeting in progress. Remain on the line if the meeting has not yet started.
5. During the Public Comment Period, press *9 to add yourself to the queue and wait for SCAG staff to announce your name/phone number. SCAG staff will unmute your line when it is your turn to speak. Limit oral comments to 3 minutes, or as otherwise directed by the presiding officer.

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AC - Audit Committee Members – October 2021

- 1. Sup. Carmen Ramirez**
Ventura County
- 2. Hon. Ben Benoit**
Air District Representative
- 3. Hon. Marty Simonoff**
Brea, RC District 22
- 4. Hon. Cheryl Viegas-Walker**
El Centro, RC District 1
- 5. Hon. Alan Wapner**
SBCTA Representative
- 6. Hon. Edward Wilson**
Signal Hill, GCCOG

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AUDIT COMMITTEE AGENDA

Southern California Association of Governments
Remote Participation Only
Wednesday, October 20, 2021
10:30 AM

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

CALL TO ORDER AND PLEDGE OF ALLEGIANCE *(The Honorable Carmen Ramirez, Chair)*

PUBLIC COMMENT PERIOD

Members of the public are encouraged, but not required, to submit written comments by sending an email to: ePublicComment@scag.ca.gov by 5pm on Tuesday, October 19, 2021. Such comments will be transmitted to members of the legislative body and posted on SCAG's website prior to the meeting. Any writings or documents provided to a majority of the Audit Committee regarding any item on this agenda (other than writings legally exempt from public disclosure) are available at the Office of the Clerk, located at 900 Wilshire Blvd., Suite 1700, Los Angeles, CA 90017 during normal business hours and/or by contacting the office by phone, (213) 630-1420, or email to aguilarm@scag.ca.gov. Written comments received after 5pm on Tuesday, October 19, 2021, will be announced and included as part of the official record of the meeting. Members of the public wishing to verbally address the Audit Committee in real time during the meeting will be allowed up to 3 minutes to speak, with the presiding officer retaining discretion to adjust time limits as necessary to ensure efficient and orderly conduct of the meeting. The presiding officer has the discretion to equally reduce the time limit of all speakers based upon the number of comments received. The total time period for all public comments related to items on the agenda and any other matter within the agency's subject matter jurisdiction is five (5) minutes. The presiding officer retains discretion to extend the 5-minute general comment period so that all members of the public desiring to speak may do so.

REVIEW AND PRIORITIZE AGENDA ITEMS

CONSENT CALENDAR

Approval Item

1. Minutes of the Meeting - April 28, 2021

INFORMATION ITEMS

2. Introduction of New Internal Auditor 5 Mins.
(Darin Chidsey, Chief Operating Officer)
-



- | | |
|--|----------|
| 3. Project Management Process Improvement Update
<i>(Debbie Dillon, Chief Strategy Officer)</i> | 15 Mins. |
| 4. Internal Audit Status Report
<i>(David James, Internal Auditor)</i> | 20 Mins. |
| 5. Finance Status Report
<i>(Cindy Giraldo, Chief Financial Officer)</i> | 10 Mins. |

FUTURE AGENDA ITEMS

ANNOUNCEMENTS

ADJOURNMENT



Southern California Association of Governments
Remote Participation Only
October 20, 2021

AUDIT (AC) COMMITTEE
MINUTES OF THE MEETING
WEDNESDAY, April 28, 2021

THE FOLLOWING MINUTES ARE A SUMMARY OF ACTIONS TAKEN BY THE AUDIT COMMITTEE. A VIDEO AND AUDIO RECORDING OF THE FULL 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. A quorum was present.

Members Present:

Hon. Jan Harnik, Chair		RCTC
Hon. Margaret Finlay, Vice Chair	<i>City of Duarte</i>	District 35
Hon. Sean Ashton,	<i>Downey</i>	District 25
Hon. Margaret Clark	<i>Rosemead</i>	District 32
Hon. Clint Lorimore	<i>City of Eastvale</i>	District 4
Hon. Steve Manos	<i>Lake Elsinore</i>	District 63
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
Hon. Fred Minagar	<i>Laguna Niguel</i>	District 12
Hon. Ali Saleh	<i>Bell</i>	District 27
Hon. Edward Wilson	<i>Signal Hill</i>	District 11

CALL TO ORDER AND PLEDGE OF ALLEGIANCE

The Honorable Jan Harnik called the meeting to order at 10:32 a.m., and asked Steve Manos, City of Lake Elsinore, to lead the Pledge of Allegiance. The Clerk confirmed a quorum was present.

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 February 3, 2021, Meeting

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

AYES: Clark, Finlay, Harnik, Lorimore, Manos, Ramirez, Simonoff, Viegas-Walker and Wapner (9)

NOES: None (0)

ABSTAIN: None (0)

INFORMATION ITEMS

2. Internal Auditor Recruitment Update

Darin Chidsey, Chief Operating Officer, provided a brief update on the Internal Auditor recruitment process. He noted that the recruitment process was immediate, and that staff is currently reviewing resumes; interviews to start soon. Mr. Chidsey commented that the goal is to have an Internal Auditor in place by the next Audit Committee meeting, and in the interim, the internal audit functions would be conducted and maintained by Cindy Giraldo, Chief Financial Officer and by Michael Houston, Chief Legal Counsel.

3. Fiscal Year (FY) 2020-21 Briefing from Financial Auditors

Cindy Giraldo, Chief Financial Officer, introduced Roger Alfaro, Partner, Eide Bailly, LLP, SCAG's financial auditor. Mr. Alfaro provided a brief presentation of the audit planning and risk assessment process for the upcoming FY 2020-21 audit. The presentation highlighted the following processes:

- Preparation of the financial statements: draft Comprehensive Annual Financial Report (CAFR)
- 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
- Opinion expressed on compliance for the Single Audit applicable to major federal programs
- Details of the roles and responsibilities of the audit process, including Management's responsibilities in the planning process
- Planning and Risk Assessment's approach including testing journal entries
- Outline on applicable pronouncements and future statements
- Audit Timelines with final fieldwork conducted in September and reporting later in the year.

Mr. Alfaro responded to comments and questions expressed by Committee members. He noted that conducting audit work during the pandemic has had an impact, although, Eide Bailly, LLP has experience in conducting audit work remotely; additionally, he stated that the firm can perform a very effective audit by expanding the work and modifying procedures.

The PowerPoint presentation was included in the agenda packet.

4. Project Management Process Improvement Update

Debbie Dillon, Chief Strategy Officer, provided status updates on the project management process underway that support continuous improvement for project management and procurement processes. The following highlights were included in Ms. Dillon's presentation:

- Caltrans confirmation that the under-recovery of indirect cost in the amount of \$598,332 was resolved and can be included in SCAG's FY 2021-22 budget. Closure on this outstanding Corrective Action Plan item is anticipated to be closed out in the next few months.
- Lead Projects Manager, Mike Jones, completed his rotational assignment in the Enterprise Project Management Office (EPMO) and will return to his position in Planning. Mr. Jones completed an assessment of various project management practices which is currently being shared with management for input, then onto agency staff. Ms. Dillon thanked Mr. Jones for his valuable contribution to the EPMO.

-
- The EPMO continues to assist the Finance business units with educating staff and streamlining access to various existing tools and training, including the implementation of a project management template/project planning tool.
 - With the hiring Cindy Giraldo, Chief Financial Officer, the EPMO established a new committee focused on additional improvements to the procurement process. More details are provided in the Internal Audit Status report which is part of today's agenda packet. Additionally, The CFO and Manager of Contracts joined a stakeholder review group that assists the Caltrans Local Assistance Program. By becoming members of this group, SCAG will have the opportunity to provide comments and feedback, prior to adoption of future updates.

Ms. Dillon concluded her presentation and noted that staff would continue to provide progress updates to the Committee.

5. Internal Audit Status Report

Cindy Giraldo, Chief Financial Officer, presented the Internal Audit Status Report, which lists work performed since the last Committee meeting. In addition, Ms. Giraldo provided highlights of the significant progress underway in the following key areas:

- Staff is currently working with Eide Bailly, SCAG's external auditors on the commencement of the FY 2020-21 audit, which is scheduled to begin in May.
 - SCAG will extend the external audit contract with Eide Bailly for an additional two-year term. The final fiscal year under audit by Eide Bailly is planned for FY 2022-23. The new contract extension is expected to be brought to the Audit Committee and Regional Council for approval within the next few months.
 - A draft of a new SCAG policy on labor charging practices has been completed. This policy will be reviewed by SCAG senior management and be distributed in draft form to SCAG staff for review and feedback prior to formal adoption.
 - With the vacancy of the Internal Auditor position, the responsibility of completing pre-award reviews has been transitioned to the Contract Administrators within the Contracts department. Since our last Audit Committee meeting, an additional \$286,851 of savings have been achieved through this negotiation process.
 - There have been no new reports from the Ethics Hotline since the last Audit Committee meeting.
-



Staff responded to comments and questions expressed by the Councilmembers, including questions regarding the ethics hotline monitoring and reporting process. Michael Houston, Chief Counsel, noted that he would manage the hotline and provided details on that process. Additionally, Kome Ajise, Executive Director, provided details on how SCAG staff is informed of the ethics hotline policies and procedures.

ANNOUNCEMENTS

Darin Chidsey, COO, stated that today’s meeting would be Chair Harnik’s last meeting as the AC Chair. Mr. Chidsey, along with the AC members, and SCAG staff, expressed appreciation to Chair Harnik for her dedication and service to the Audit Committee. Mr. Chidsey announced that the FY 2022-23 second VP would become the next AC Chair.

ADJOURNMENT

There being no further business, Chair Harnik adjourned the Audit Committee meeting at 11:02 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 3
REPORT

Southern California Association of Governments
Remote Participation Only
October 20, 2021

To: Audit Committee (AC)
From: Debbie Dillon, Chief Strategy Officer
(213) 236-1870, Dillon@scag.ca.gov
Subject: Project Management Process Improvement Update

**EXECUTIVE DIRECTOR'S
APPROVAL**

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 28, 2021, meeting, staff provided an update regarding the California Department of Transportation ("Caltrans") Corrective Action Plans, 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 - Closed
As of the April 28, 2021, Audit Committee meeting SCAG was waiting on one outstanding response due from Caltrans regarding the under-recovery of indirect costs in the amount of \$598,332 as of June 30, 2017. SCAG received email approval from Caltrans to include the full amount of the under-recovery of indirect costs in the FY22 Indirect Cost Budget. As part of Budget Amendment 2, coming to the Regional Council for approval in December, SCAG will be submitting this amount for formal Caltrans approval. Next steps will require working with the FTA, our new "cognizant agency," to amend our indirect cost recovery rates.

B. Enterprise Project Management Office and Continuing Process Improvement
The EPMO was established in May 2020 with the hiring of a Lead Projects Manager who was on a rotational developmental assignment from the Planning Division through May 7, 2021. The Lead Projects Manager reported to the Executive Director's Office through Debbie Dillon, Chief Strategy Officer. The EPMO worked closely with the Planning Division which has since staffed

up its project delivery team, enhanced and improved its internal processes, and project tracking. So far in FY 20/21, Planning has added three management analysts to support program and project managers in delivering direct local technical assistance to local and regional entities under three major funding programs. The project delivery team has improved project tracking across the programs. Additionally, a new management analyst was hired to support cross-division initiatives and inter-division coordination. This person has developed workflows for multiple inter-division processes, and a workplan document that will be used to prepare for the FY 22/23 budget development cycle. The rotational assignment concluded in May. Since that time SCAG has evaluated how best to move the EPMO into its next phase of implementation. SCAG's Chief Information Officer, Julie Shroyer, who possesses proven knowledge and experience establishing strong project management systems will be leading SCAG into the next phase of EPMO implementation. Julie began reporting to EPMO Executive Sponsors, Executive Director, Kome Ajise, Chief Operating Officer, Darin Chidsey and Chief Strategy Officer, Debbie Dillon a few months ago in this role and has launched a process to build a strong cross divisional steering committee and schedule a decision-making workshop facilitated by Industry leader Gartner on November 1st. The workshop will facilitate definition and prioritization of services to be offered by the EPMO and a phased approach to deliver the greatest outcomes for the agency in the near and long term.

Additional improvements or activities that have taken place or are in process since the April 28, 2021, Audit Committee include the following:

1. The EPMO Lead Projects Manager completed an assessment of the maturity of various project management practices by conducting a survey, researching best practices, and holding focus groups. The executive summary was circulated to SCAG divisions for review and input. The final executive summary provides important data for the next phase of EPMO implementation as described above.

Staff continues to implement a project management planning template that was developed by a consultant. The EPMO helped identify superusers throughout the agency who received training as additional support within business units. Training on the template was provided to all project managers in January and the template is in use. Additional training is being provided and recorded for new staff.

2. The EPMO continues to assist the Finance Division's operational units with educating staff and streamlining access to various existing tools and training. The project management training implemented with the response to Caltrans Audit requirements in November 2019 is updated on a regular basis to reflect process improvement and other changes and

presented to staff as well as recorded and made available on demand through SCAG's intranet. Another updated training is planned before the end of the calendar year.

With the hiring of the current Chief Financial Officer (CFO) last November, the EP MO established a new committee focused on additional improvements to the procurement process. This team began meeting in November 2020 and has been actively updating manuals, training materials and processes. Some of these are mentioned in the CFO report but also include:

- 1) Revisions to the pre-award/contracts process
 - 2) Labor charging practices updates and training
 - 3) Improved processes and requirements for contracting with non-profits
 - 4) Utilization of bench contracts
3. The CFO and Manager of Contracts continue to serve on a stakeholder review group that assists the Caltrans Local Assistance Program with future updates to its Local Assistance Procedures Manual which is a resource for SCAG in administering the projects funded through Caltrans. By becoming members of this group, SCAG has had the opportunity to provide comments/feedback prior to the adoption of future updates and has provided SCAG a voice in the formation of policies and procedures that directly impact our ability to serve our stakeholders. Caltrans' Local Assistance Program oversees more than one billion dollars annually available to over 600 cities, counties, and regional agencies for the purpose of improving their transportation infrastructure or providing transportation services. This funding comes from various Federal and State programs specifically designed to assist the transportation needs of local agencies. Annually, over 1,200 new projects are authorized through the Local Assistance Program of which approximately 700 are construction projects.
4. Additionally, SCAG continues to move away from Cost-Plus-Fixed Fee contracts and toward Lump Sum contract formats, when appropriate. Of the 19 active procurements on October 8, 2021, 12 or 63.16%, were structured as Lump Sum contracts with milestone or progress payments. That payment structure requires less administration and is more attractive to potential bidders as long as the scope of work in the Request for Proposals 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:

None.



AGENDA ITEM 4
REPORT

Southern California Association of Governments
Remote Participation Only
October 20, 2021

To: Audit Committee (AC)
From: David James, Internal Auditor
(213) 630-1483, djames@scag.ca.gov
Subject: Internal Audit Status Report

**EXECUTIVE DIRECTOR'S
APPROVAL**

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:**
SCAG's new Internal Auditor has begun work in key areas:
- *The Internal Auditor is performing an organizational Risk Assessment.*
 - *The Internal Auditor is now the administrator of the SCAG ethics hotline.*

BACKGROUND:
SCAG's Internal Auditor performs assessments of SCAG operations, including evaluations of the effectiveness and efficiency of various departments, functions and evaluating governance, risk management, and internal controls. Internal Audit assists staff in efficient and effective discharge of responsibilities by providing independent analyses, appraisals, findings, and recommendations.

A. Organizational Risk Assessment by Internal Audit

SCAG's new Internal Auditor is conducting an organization-wide risk assessment in order to understand in depth SCAG's organizational risks and operations. The Internal Auditor interviewed numerous management staff on their function's key goals and risks. The Internal Auditor also reviewed prior audit reports, policies, procedures, and process manuals. The Internal Auditor will use this information to prepare a risk matrix of areas for a potential internal audit or review. The goal is to create a risk-based list of internal audits to perform.

Common themes that SCAG managers discussed were rapid growth of SCAG, with new funding sources such as for Regional Early Action Planning (REAP). There are also new initiatives at SCAG,

such as its Broadband Action Plan. SCAG managers want to improve their business practices to meet growth, to continuously improve the efficiency of operations, and to use most effectively grant funds. Management also wants Internal Audit to help provide assurance on compliance with laws and grant terms.

SCAG has many key processes that are documented: there are manuals with detailed processes for accounting, contracts, procurement, project management, and human resources. In addition, SCAG has policies for ethics, governance, and other key areas. SCAG has increased the quantity of employees to meet the increased workloads, reorganized some key functions such as Planning, and is using updated software and processes for some functions. With organizational change comes new risks and opportunities, and Internal Audit should play a role in helping SCAG to address these.

B. SCAG Ethics Hotline Update

The Internal Auditor is now the Administrator of SCAG's ethics hotline Case Management System. The system is provided by a third-party vendor, Lighthouse Services, which allows for anonymous reporting by phone, online, email, or the postal service. Human Resources Director Carmen Flores and Chief Counsel/Director of Legal Services Michael Houston have access to the Case Management System of hotline reports. Information on how anyone can file a report on the Ethics Hotline is on SCAG's website.

FISCAL IMPACT:

None.



AGENDA ITEM 5
REPORT

Southern California Association of Governments
Remote Participation Only
October 20, 2021

To: Audit Committee (AC)
From: Cindy Giraldo, Chief Financial Officer
(213) 630-1413, giraldo@scag.ca.gov
Subject: Finance Status Report

**EXECUTIVE DIRECTOR'S
APPROVAL**

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:
SCAG staff had made significant progress during this past quarter in several key areas:

- *Eide Bailly commenced the FY 2020-21 audit, no issues have been reported and we remain on target to complete before the calendar year end.*
- *A new SCAG policy on labor charging practices has been completed. All staff have received training and the new policy and training documents are available on SCAGHub.*
- *Tom Philip, Accounting Manager, has left SCAG. Erika Bustamente is now Interim Accounting Manager, and an internal recruitment is underway to backfill her position as Budget & Grants Manager. A full recruitment for a permanent replacement, with a new title of Controller, is being planned. The goal is to onboard the new staff early next calendar year.*
- *SCAG was victim to internet email fraud leading to unrecovered losses of \$22,538. Internal discovery was completed, revised procedures were implemented, and staff has reported the matter to the Los Angeles Police Department (LAPD) and the Federal Bureau of Investigation (FBI) for investigation and will continue to cooperate with law enforcement.*
- *The responsibility of completing pre-award reviews has been transitioned to the Contract Administrators within the Contracts department. Since our last Audit Committee meeting, an additional \$1.4 million of savings have been achieved through this negotiation process.*

BACKGROUND:
A. FY 2020-21 Financial Audit

Eide Bailly has commenced their audit of our FY 2020-21 financial statements. Eide Bailly has provided staff with the Prepared by Client List (PBC), which is a list of requested financial reports and supporting documentation. Work toward the completion and compilation of all requested items is almost complete. At this point staff is not aware of any issues and we remain on target for the completion of our annual financial report in time to file for the GFOA Award for Excellence in Financial Reporting which is due by the end of December.

B. Labor Charging Policy

As reported during the last Audit Committee meeting, the development of a labor charging policy has been identified as a priority for SCAG. The Labor Budgeting, Labor Monitoring & Labor Charging Policy & Procedures is now complete. The purpose of this policy is to:

Define responsibility for project labor budget preparation, monitoring and charging.

- Ensure correct hours are charged to the correct project codes, and consistent with state and federal laws and regulations.
- Ensure time is reported accurately and honestly. This means reporting only the true and actual number of hours worked and ensuring that the hours charged specifically relate to the activity or work performed.
- Ensure that no cost is allocated to a project which is unallowable, misallocated, contrary to a contract provision or otherwise improper.

In September, all staff received training on the new policy. Additionally, training materials and a copy of the policy is available to employees on SCAGHub.

C. Change in Finance Management

In early September, Tom Philip, Accounting Manager for the past three years, gave notice of his intention to leave SCAG to pursue other opportunities. Tom's last day with SCAG was Friday, October 1st. Each challenge brings opportunity, so I am happy to report that Ms. Erika Bustamante has agreed to work as Interim Accounting Manager until a permanent replacement is found. This of course, generates another opportunity in the Budget and Grants Department for another SCAG employee to step-up as the Interim Budget and Grants Manager. An internal recruitment is already underway. I am confident these cross-training opportunities will further strengthen the finance team. A full recruitment is also underway for a permanent replacement. The position title has been updated to Controller to reflect the breadth of the associated responsibilities more accurately. Based on the current recruitment timeline, the goal is to be onboarding our new Controller shortly after the new year.

D. Internet Email Fraud

In January of this year SCAG was victim to internet email fraud leading to an unrecovered loss of \$22,538.

In early January, staff was working with a new service provider, Cornerstone to set them up as a vendor within our financial system. Regular email exchanges were occurring between staff and the authorized Cornerstone representative Andrew Vo. Events leading to the fraud progressed as follows:

1/5: Staff receives valid invoice and banking information from Andrew Vo.

1/19: Staff receives email from a presumably fictitious “Andrew Vo” requesting change in banking information. Upon a “casual” inspection of the email, and superficially, it is very consistent with Andrew Vo’s signature and Cornerstone branding, but with close examination of the email it is evident the sender is not Andrew Vo’s email (i.e., there is a minor alteration of the email address to a separate non-Cornerstone domain).

1/21: Staff completed the banking change considering the email valid.

1/26: Payment to Cornerstone is made to bank account on record (i.e., changed account based on fictitious email).

2/17: Staff responded to a Cornerstone email requesting status of payment and informed them that payment was made on January 26th.

5/11: Cornerstone sent email requesting proof of payment, which was provided by staff.

5/14: Cornerstone informed staff that Andrew Vo no longer worked for them, and the banking information was erroneous. This is the date the fraud was discovered.

Following the discovery of the fraud, SCAG took the following actions:

- SCAG Executive Management and Legal Counsel were informed of the incident.
- We reviewed all vendor banking changes made in the prior 90 days to confirm they were valid; no exceptions were noted.
- We implemented a new procedure requiring the completion of the appropriate Vendor Change Form. Once received, staff must confirm requested changes over the phone with the vendor contract contact on file.
- We worked with our bank to attempt to recover the fraudulently transmitted funds. The funds have not been recovered.
- The incident was reported, by our Chief Counsel, to both LAPD and the FBI. All requests from these agencies for information or supporting documentation were provided.

While the incident remains open within LAPD and FBI, we consider the incident internally to be closed although we remain available should future information or requests be received from either law enforcement agency.

E. Pre-Award Review Update

As part of SCAG’s procurement policies and procedures, staff completes detailed pre-award reviews

on high dollar value consultant contracts. These reviews provide SCAG with a basis to reduce the contract price through negotiations with the winning bidder. With the vacancy of the Internal Auditor position, the opportunity arose to evaluate the pre-award review process. While previously performed by the Internal Auditor, this responsibility has now been transitioned to the Contracts Department and is performed by Contract Administrators. This transition has thus far been successful with continued significant savings being achieved. Table 1 below shows the success Contract Administrators have achieved through the negotiation process.

Table 1: High-Value Contract Negotiation Results

Contract #	Firm	Proposed Amount	Final Negotiate Amount	Negotiated Savings
21-058-C01	Fehr & Peers	\$312,590	\$303,747	\$8,842
22-006-C01	Nyhart Consulting	\$10,680	\$9,000	\$1,680
21-015-C01	KOA Corporation	\$1,418,097	\$1,246,863	\$171,234
21-047-MRFP 01	LeSar Development Consultants	\$869,800	\$815,823	\$53,977
21-050-C01	SCANPH	\$1,111,491	\$499,999	\$611,492
20-045-C01	Steer	\$435,705	\$149,535	\$286,170
21-035-C01	Magellan Advisors	\$397,870	\$174,808	\$223,062
20-062-C01	Toole Design Group, LLC	\$349,927	\$297,194	\$52,733
21-044-C01	IBI Group	\$617,063	\$613,867	\$3,196
TOTAL		\$5,523,223	\$4,110,836	\$1,412,387

FISCAL IMPACT:

None.