

SOUTHERN CALIFORNIA



**ASSOCIATION of  
GOVERNMENTS**

**Main Office**

818 West Seventh Street

12th Floor

Los Angeles, California

90017-3435

t (213) 236-1800

f (213) 236-1825

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

**Officers**

President

Glen Becerra, Simi Valley

First Vice President

Greg Pettis, Cathedral City

Second Vice President

Carl Morehouse, San Buenaventura

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Committee Chair**

Glen Becerra, Simi Valley

**Policy Committee Chairs**

Community, Economic and

Human Development

Paula Lantz, Pomona

Energy & Environment

Cheryl Viegas-Walker, El Centro

Transportation

Keith Millhouse, Ventura County

Transportation Commission

## MEETING OF THE

# AUDIT COMMITTEE

***Tuesday, May 14, 2013***

***10:00 a.m. – 11:00 a.m.***

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

## Teleconference and Videoconference will be available

(Location information included in packet)

If members of the public wish to review the attachments or have any questions on any of the agenda items, please contact Carmen Summers at (213) 236-1984 or via email [summers@scag.ca.gov](mailto:summers@scag.ca.gov).

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

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

SCAG, in accordance with the Americans with Disabilities Act (ADA), will accommodate persons who require a modification of accommodation in order to participate in this meeting. SCAG is also committed to helping people with limited proficiency in the English language access the agency's essential public information and services. You can request such assistance by calling (213) 236-1993. We request at least 72 hours (three days) notice to provide reasonable accommodations. We prefer more notice if possible. We will make every effort to arrange for assistance as soon as possible.

***Audit Committee Membership  
May 2013***

**Members**

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

**Representing**

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

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## **Teleconference Locations**

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

Hon. Greg Pettis  
Washington Hilton Hotel  
1919 Connecticut Ave NW  
Washington, DC 20009

Hon. Ed Wilson  
City Hall  
2175 S. Cherry Ave.  
Signal Hill, CA 90755

Hon. Margaret Finlay  
2221 Rim Road  
Duarte, CA 91008

## **Videoconference Locations**

Imperial County SCAG Office  
1405 N. Imperial Ave., Suite 1  
El Centro, CA 92243

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

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# AUDIT COMMITTEE AGENDA MAY 14, 2013

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**TIME PG#**

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

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

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

## **ROLL CALL**

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

## **REVIEW and PRIORITIZE AGENDA ITEMS**

## **SELECTION OF VICE CHAIR**

## **CONSENT CALENDAR**

### **Approval Items**

- |  |                   |  |          |
|--|-------------------|--|----------|
| 1. <u>Minutes of March 5, 2013 Meeting</u> | <b>Attachment</b> |  | <b>1</b> |
|--|-------------------|--|----------|

## **INFORMATION ITEMS**

- |  |                   |               |           |
|--|-------------------|---------------|-----------|
| 2. <u>Internal Audit Status Report</u><br><i>(Richard Howard, Internal Auditor)</i>                | <b>Attachment</b> | <b>5 min</b>  | <b>5</b>  |
| 3. <u>Fraud Risk and Internal Control Update</u><br><i>(Basil Panas, Chief Financial Officer)</i>  | <b>Attachment</b> | <b>20 min</b> | <b>7</b>  |
| 4. <u>Ethics Hotline Communication Policy</u><br><i>(Debbie Dillon, Deputy Executive Director)</i> | <b>Attachment</b> | <b>5 min</b>  | <b>17</b> |
| 5. <u>Risk Assessment Audit Planning</u><br><i>(Richard Howard, Internal Auditor)</i>              | <b>Attachment</b> | <b>5 min</b>  | <b>19</b> |
| 6. <u>IT Audit Update</u><br><i>(Catherine Chavez, Chief Information Officer)</i>                  | <b>Attachment</b> | <b>10 min</b> | <b>21</b> |

**AUDIT COMMITTEE  
AGENDA  
MAY 14, 2013**

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*TIME PG#*

**FUTURE AGENDA ITEMS**

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

**ANNOUNCEMENTS**

**ADJOURNMENT**

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Audit Committee  
of the  
Southern California Association of Governments

March 5, 2013

*Minutes*

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

The Audit Committee held its meeting at the SCAG offices in downtown Los Angeles. The meeting was called to order by Hon. Carl Morehouse, Chair, San Buenaventura, District 47. There was a quorum.

**Members Present**

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

**Representing**

District 47, SCAG 2<sup>nd</sup> Vice-President  
(Via Videoconference)  
District 46, SCAG President  
(Via Teleconference)  
District 2, SCAG 1st Vice-President  
District 35  
District 18  
District 1 (Via Videoconference)  
Gateway Cities COG  
(Via Teleconference)

**CALL TO ORDER & PLEDGE OF ALLEGIANCE**

Hon. Carl Morehouse, Chair, called the meeting to order at 10:01 a.m.

**ROLL CALL**

A roll call was taken and it was determined that a quorum was present.

**PUBLIC COMMENT PERIOD**

None.

**REVIEW and PRIORITIZE AGENDA ITEMS**

None.

**CONSENT CALENDAR**

**Approval Items**

1. Minutes of November 13, 2012 Meeting

Motion was made (Walker) to approve the Consent Calendar Approval Items. Motion was seconded (Pettis). A roll call vote was taken. Motion passed with one abstention (Mills).

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Audit Committee  
of the  
Southern California Association of Governments

March 5, 2013

*Minutes*

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**ACTION ITEMS**

2. FY 2012/13 External Financial Audit

SCAG's outside independent auditors, Ms. Peggy McBride, Principal and Ms. Linda Narciso, Manager, Vasquez & Company, LLC, provided an overview of the Planned Audit Procedures for fiscal year ending June 30, 2013. The presentation included the following audit scope:

- Internal Control Evaluation and Testing
- Risk assessment (with the use of IDEA software)
- Substantive Testing of Financial Audit Statements
- Reporting on Internal Controls over Financial Reporting and Compliance

Ms. McBride identified the client service team that would be conducting the audit as well as the audit table and reported that the final audit report will be presented at the November 2013 Audit Committee meeting.

With respect to the question regarding the GASB Pronouncements, Ms. Narciso stated that her staff will invite SCAG staff and Committee members to future training regarding GASB pronouncements and updates. There were no specific directions given to the external auditors from the Audit Committee.

3. Internal Audit Manual Report

Richard Howard, Internal Auditor, provided an update on the Internal Audit Department Policies and Procedures Manual (Internal Audit Manual) which was modified to incorporate risk-based auditing procedures. Mr. Howard requested the Audit Committee to adopt the Internal Audit Manual.

Hon. Cheryl Viegas-Walker requested that a table of contents with corresponding page numbers be added. Additionally, Hon. Viegas-Walker asked staff to explain the communication plan for disseminating SCAG's Internal Audit Hotline (hotline) number, noted on page 17 of the Internal Audit Manual.

Debbie Dillon, Deputy Executive Director, Administration responded that the hotline is communicated internally in SCAG's ethics policy which is distributed annually to staff. The hotline number is also indicated on SCAG's internal phone list which is distributed to staff each time it is updated. Ms. Dillon stated that a detailed internal and external communication policy will be presented at the May 14, 2013 Audit committee meeting.

A motion was made (Finlay) to adopt the Internal Audit Manual. Motion was seconded (Mills). A roll call vote was taken. Motion passed unanimously.

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Audit Committee  
of the  
Southern California Association of Governments

March 5, 2013

*Minutes*

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**INFORMATION ITEMS**

4. Forensic Audit Request

Hon. Leroy Mills stated that in the interest of public accountability, he requested the Audit Committee members consider approving in concept that an in-depth audit review be performed that would go further than the regular financial statement audits currently performed. Hon. Mills suggested a “fraud audit” which would be conducted every five (5) years, and asked staff to present at the next Audit Committee a plan that would detail that effort.

Hasan Ikhata, Executive Director, stated that he welcomed a more detailed audit being performed every five (5) years in order to detect fraud and/or waste, but that he believed that there were internal controls already in place to address the matter. He further noted that due to the agency’s current budget priorities, an audit without a specific scope of work could be cost prohibitive. Discussion ensued amongst the members of the high cost associated with “forensic” or “fraud” audits and that other options to address Mr. Mills’ request should be considered.

After the discussion, it was the consensus of the membership to direct staff to prepare a summary report of the agency’s internal controls and best practices that are already being performed to detect fraud and waste in the organization.

5. Internal Audit Status Report

Richard Howard, Internal Auditor, provided an update of the preaward contract audits being performed and an update of the ALGA Peer Review process. He noted that due to a two (2) year membership requirement, the peer review is scheduled for completion by July 2014, instead of July 2013. There was no additional discussion or comments made on this item.

6. Risk Management Evaluation Action Report Update

Basil Panas, CFO, provided an update of the California Joint Powers Insurance Authority (JPIA) risk assessment evaluation report which included 15 action items aimed at reducing future losses. Mr. Panas noted that all 15 actions items had been successfully completed. There was no additional discussion or comments made on this item.

7. IT Audit Update Report

Catherine Chavez, Chief Information Officer, reported the progress of the five (5) remaining Information Technology (IT) action items recommended for improvement by the IT Audit conducted in FY 2011: *IT Strategic Plan, Security Violation Reporting, Application System Parameters, Periodic Certification of User Profiles in Systems and Business Contingency Planning*. To date, four (4) of the nine (9) recommendations have been completed.

Catherine Chavez addressed the concerns presented by Hon. Leroy Mills regarding the approach to combine the last tasks required for the Security Violation Reporting with the Periodic Certification of User Profiles in Systems.

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Audit Committee  
of the  
Southern California Association of Governments

March 5, 2013

*Minutes*

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Debbie Dillon, Deputy Executive Director, Administration assured the Committee members that the Business Contingency Planning effort, which would include writing and testing the full plan, would be completed by the fiscal year-end. A progress report will be provided at the May 14, 2013 Committee meeting.

**STAFF REPORT**

None was presented.

**FUTURE AGENDA ITEMS**

- Internal and external ethics hotline communication policy
- Internal Controls and Best Practices summary report
- IT Audit Progress and Business Contingency Planning update report

**ANNOUNCEMENTS**

Hon. Carl Morehouse, Chair, welcomed Hon. Margaret Finlay to the Audit Committee membership.

**ADJOURNMENT**

Hon. Carl Morehouse, Chair, adjourned the meeting at 11:05 a.m. The next regular meeting of the Audit Committee will be held on Tuesday, May 14, 2013 at the SCAG Los Angeles office.

**Minutes Approved by:**



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Basil Panas, Chief Financial Officer  
Staff to the Audit Committee

# REPORT

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**DATE:** May 14, 2013  
**TO:** Audit Committee  
**FROM:** Richard Howard, Internal Auditor, (213) 236-1905, [howard@scag.ca.gov](mailto:howard@scag.ca.gov)  
**SUBJECT:** Internal Audit Status Report

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**RECOMMENDED ACTION:**

For Information Only – No Action Required.

**STRATEGIC PLAN:**

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

**BACKGROUND:**

Since the last Audit Committee meeting March 5, 2013, one preaward audit of a contract proposal in the amount of \$1,844,156 was completed. This contract is with System Metrics Group and was approved by the Regional Council at the April 4, 2013 meeting. The audit resulted in questioned costs of \$1,588 on one of the subconsultants. The subconsultant used a 5% per year labor escalation in its proposal instead of 3.5% per year as used by the other subconsultants. The subconsultant reduced its proposed escalation to 3.5%.

**FISCAL IMPACT:**

None.

**ATTACHMENTS:**

None.

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# REPORT

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**DATE:** May 14, 2013

**TO:** Audit Committee

**FROM:** Basil Panas, Chief Financial Officer, (213) 236-1817, [panas@scag.ca.gov](mailto:panas@scag.ca.gov)

**SUBJECT:** Fraud Risk and Internal Control Update

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**RECOMMENDED ACTION:**

For Information Only – No Action Required.

**STRATEGIC PLAN:**

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

**BACKGROUND:**

At the March Audit Committee meeting there was a request that staff provide information regarding SCAG's fraud risk and its internal controls to prevent fraud, waste and non-compliance. This report is presented in response to this request.

**Historical Background:**

Because of significant cash flow problems in 1999, SCAG retained the services of KPMG CPAs to perform an independent management review of SCAG's financial, accounting and contracting procedures. Their report found that SCAG had deficient internal controls within its accounting and contracting procedures, as well as in its overall program management. SCAG initiated the Best Practices Study whose Accounting Task Force made recommendations aimed at strengthening certain internal controls and creating controls and procedures in areas of cash receipts, disbursement and cash flow projections. The Accounting Best Practices Task Force recommended that the Regional Council create an Audit Committee to oversee the selection of the outside audit firm to direct their activities and report findings to the Regional Council. An Internal Audit function was recommended to undertake independent examinations of internal practices and make recommendations to strengthen controls and accountability and to improve the efficiency of operations. SCAG's first Internal Auditor, Ed Paul, was hired in September 2001 and held this position until May 2005. The second Internal Auditor, Richard Howard, was hired in August 2005.

Also as a result of the KPMG audit, FHWA requested that Caltrans perform an audit. Caltrans' 2001 audit included an examination of SCAG's overall internal controls, accounting systems and procurement processes. The audit results were that SCAG should be treated as a "high risk recipient" of state and federal funds, due to significant cash flow problems and as a recipient of state and federal awards had not conformed to the terms and conditions of its agreements with Caltrans. In 2006 SCAG was taken off high risk by Caltrans after addressing the findings and recommendations in the Caltrans audit, including implementation of a new accounting system and new contracts/procurement policies and procedures (and after implementation of most of the other Best Practices Study recommendations).

**Fraud Risk and Internal Controls:**

# REPORT

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At the June 20, 2011 Audit Committee meeting, we distributed a copy of the SCAG Internal Control System. Attached is another copy of the Internal Control System, which is for your review and comments. We would like to present the system for your approval at the next Audit Committee meeting. This System was prepared in accordance with the guidelines from the Committee of Sponsoring Organizations (The Treadway Commission) which was established in 1992 to set up a uniform system of internal controls. Please note on Page 2 of the System that SCAG has a number of key internal controls such as the Ethics Policy, Conflict-of-Interest Policy, Travel Policy, Accounting Manual, Procurement Manual and, as of the March Committee meeting, an approved Audit Manual. Most of these policies have been in effect for several years.

In addition, SCAG established an Ethics Hot Line in 2009 for anonymous reporting of any behavior that might be illegal, unethical or violate SCAG policy. There have been no reports made on the Hot Line. However, since the adoption of the Ethics Policy in 2009, there has been one incident reported.

The incident was reported in April 2011 by the Chief Counsel and an outside independent investigator was retained to thoroughly investigate the alleged violation. The investigation was completed in September 2011 and concluded that there had been a violation of the policy. The violation related to an unintentional error in judgment by staff related to the oversight of an unusually complex consulting contract. There was no waste, fraud, abuse or embezzlement related to this violation and the violation was deemed to be minor in nature. Further, the project and deliverables associated with this consulting contract were unaffected by the violation. In accordance with the Ethics Policy, the Executive Director took appropriate action with the staff after consultation with Human Resources and Legal and the matter is considered closed.

In the discussion of fraud and internal controls at the March meeting, it also was explained that two internal audits of SCAG's controls were performed in the last three and half years. Attached is a matrix showing the findings of the two audits and their disposition. Corrective actions have been taken for all the findings.

Also attached is a Fraud Risk Self-Assessment Tool that is put out by the American Institute of Certified Public Accountants (AICPA). Any score over 50 indicates strong internal controls and a reduced risk of fraud. We completed the Tool for SCAG and the resultant score was 76 out of a possible 93. Since completion of the Tool, we have implemented two changes regarding *item 1.02: Are employees required to take vacations*, and *item 3.04: Is a bank lockbox used for processing payments to SCAG*. Finance has established a requirement that all staff must take vacations and a bank lockbox was established in April 2013. These two items would add four points to our score, bringing the total to 80.

## **FISCAL IMPACT:**

None.

## **ATTACHMENTS:**

SCAG Internal Control System;  
Internal Audit Reports, Findings and Corrective Actions, August 2009 and November 2010;  
Fraud Risk Self-Assessment Tool.

**SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS  
(SCAG)  
INTERNAL CONTROL SYSTEM**

SCAG Management is responsible for the Internal Control System.  
The Regional Council's role is one of oversight.

The objectives of Internal Controls are reasonable assurance that the following are achieved:

- a. Effectiveness & Efficiency of Operations;
- b. Reliability of Financial Reporting;
- c. Compliance with Applicable Laws & Regulations.

**MONITORING**

Is designed to ensure that Internal Controls continue to operate effectively.

**STEPS IN MONITORING**

**A. ESTABLISH A FOUNDATION FOR MONITORING**

1. Control Environment

Tone at the Top

Management must communicate expectations

- a. Strategic Direction
- b. Code of Ethics

Effective Organizational Structure

Management implements and monitors Internal Control system.

Regional Council receives information from internal and external auditors, as well as from Management.

Baseline Understanding of Internal Control effectiveness

Ongoing monitoring to validate that controls are effective.

## **B. DESIGN AND EXECUTE MONITORING PROCEDURES**

### 1. Risk Monitoring and Assessment

#### Prioritize Risks

Analyze the objectives of SCAG.

Determine what risks could have a meaningful effect on achieving those objectives.

### 2. Identify Key Controls

Management Philosophy;

Ethics Policy;

Conflict-of-Interest Policy;

Accounting Manual;

Procurement Manual;

Payroll and Timekeeping Procedures;

Project Manager's Manual;

Travel Policy;

Segregation of Duties;

Local Assistance Procedures Manual;

Federal Acquisition Regulations (FAR);

2 CFR Part 225-Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87);

49 CFR Part 18-Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments;

Master Fund Transfer Agreement;

Federal Transit Administration Circulars.

### 3. Identify Persuasive Information

Suitable information must be:

Relevant;

Reliable;

Timely.

Direct information – Obtained by observing controls in operation

Indirect information-All other information that may indicate a control failure, such as operating statistics, key performance indicators, etc.

#### 4. Implement Monitoring Procedures

##### Ongoing

Built into the routine, recurring operations of SCAG.

##### Separate

Evaluate controls periodically, e.g., sample contracts for compliance.

### **C. ASSESS AND REPORT RESULTS**

#### Prioritize and Communicate Results

Significance of errors, high to low.

#### Report Internally

Depends on the risk and the purpose of the monitoring. Examples are audits of travel expenses or reconciliation of fixed asset records to physical assets.

Internal Audit reports are a key resource.

#### Report Externally

Reports to external parties regarding the effectiveness of internal controls (Annual audit, Federal & State audits).

June 2011

**SCAG Internal Audit Reports - Findings and Corrective Actions 2009 - 2010**

**Internal Audit Report Dated August 10, 2009:**

| <b>Number</b> | <b>Findings</b>   | <b>Recommended Corrective Action</b>   | <b>Status</b>   |
|---------------|---|--|---|
| I.1           | Grant Activities need centralization and written policies and procedures. | Centralize the application and management of grants and prepare a written policy and procedures manual for grant activities.   | Grants were centralized in late 2009. A checklist was initiated in January 2011 and a draft of the policy and procedures manual is currently circulating for review.  |
| I.2           | Quarterly Grant Activity Reports Need Improvement.                        | Quarterly Grant Activity reports should be reviewed by a third party before being sent to Caltrans.  | Third party reviews were instituted in September 2009.  |
| II.1          | Adherence to Federal Procurement Regulations needs further improvement.   | Contract files should contain the documentation required by Federal Regulations, including justifications and cost or pricing data.  | Contracts completed the update of all contract files in September 2009. Also effective in 2009, project managers were required to prepare cost estimates that are reviewed by Contracts staff. A Procurement Manual was completed in 2011.        |
| II.2          | Subconsultant contracts need line item budgets for invoice reviews.       | Subconsultant proposals for cost reimbursable contracts of \$25,000 and above should have line item budgets.   | Cost reimbursable subcontracts of \$25,000 and above are required to have line item budgets effective July 1, 2011.   |
| III.1         | Accounts Payable approvals need standardization.                          | Accounts Payable should indicate on invoices for payment that all extensions and footings have been checked and invoices are stamped Paid. Receiving reports and copies of purchase orders should also be attached to the paid invoices. | A procedures checklist was developed and attached to each processed invoice and all invoices are stamped Paid. Copies of purchase orders and receiving reports are attached to invoices where applicable. These steps were initiated in mid-2009. |
| III.2         | Accounting Department segregation of duties need improvement.             | Cash receipts duties should be separated from the employee who performs General Ledger entries.  | The duties of the General Ledger accountant were separated from receiving checks and cash effective as of August 2009.  |
| IV.1          | Fixed Asset records need additional work.                                 | A written Fixed Asset procedure should be prepared with regular supervisory review and approval and a Fixed Asset summary should be established that agrees to the General Ledger balances.  | The recommended procedure was prepared in 2009 and the Fixed Asset inventory was taken and was balanced to the General Ledger at March 31, 2011.  |

**SCAG Internal Audit Reports - Findings and Corrective Actions 2009 - 2010**

**Internal Audit Report Dated November 17, 2010:**

| <b>Number</b> | <b>Findings</b>   | <b>Recommended Corrective Action</b>  | <b>Status</b>  |
|---------------|---|---|--|
| I.1           | Consultants must adhere to contract payment terms for subconsultants.           | Consultants should be reminded that sub-tier consultants must be paid within 10 days of payment by SCAG to the Prime.         | Contracts added to its list of monthly reminders to consultants the requirement for prompt payment to subs. Also, in 2012 an audit of subconsultants' payment experience was performed with only one prime being late in paying its subs. This prime has since been adhering to payment terms. |
| I.2           | Consultant invoices do not consistently include all required support.           | Invoices should include documentation that the total activity for each employee being compensated is shown.                   | Contracts added this to its monthly reminders to consultants. In 2012 Caltrans told SCAG that the time sheets showing total activity need not be attached to invoices but must be kept on file in case of audit.   |
| II.1          | IT documentation of security and access policies needs further improvement.     | Policies and procedures and records of management reviews and approvals should be formalized.                                 | Procedures were completed in writing in April 2011 and an IT Steering Committee was established in December 2010. The Steering Committee meets quarterly.  |
| III.1         | Physical inventory of SCAG property should be reconciled with property records. | A reconciliation of the physical inventory to Accounting records should be made.  | The physical inventory was balanced to the Accounting records at March 31, 2011.   |
| IV.1          | Unannounced audit - payroll.  | Periodic spot checks of payroll should be performed to verify that payroll checks are supported by current, active employees. | Internal Audit performed a physical check of employees on payroll in January 2011, 2012 and 2013. No exceptions were noted.  |
| IV.2          | Unannounced audit - petty cash.   | The petty cash fund should be reviewed regularly by supervisory staff and the Internal Auditor.                               | Supervisory staff and the Internal Auditor conduct surprise petty cash counts on a quarterly basis. No exceptions have been noted.   |

## Fraud Risk Self Assessment Tool

This tool is for management's use only and does not guarantee that fraud has not or will not occur in your organization. This is only a guide.

| #        | Description   | Yes/No | Score* (If not applicable, score is 0)                                | Score | Points Missed |
|----------|---|--------|---|-------|---------------|
| <b>1</b> | <b>Human Resource Functions</b>   |        |   |       |               |
| 1.01     | Are employment background checks performed?<br>Past employment<br>Eligible for rehire (according to past employer, based on their work habits).<br>Criminal background,<br>Drug testing,<br>Education and licensing<br>References | Yes    | For every yes, add 1 point for this question<br>(maximum of 5 points) | 5     |               |
| 1.02     | Are employees required to take vacations?   | No     | Yes = 1 No - 1  | -1    | 2             |
| 1.03     | Are employees who handle cash bonded?   | Yes    | Yes = 1 No - 1  | 1     | 0             |
| 1.04     | Do employees job-share or rotate positions?   | No     | Yes = 2 No - 1  | -1    | 3             |
| 1.05     | Is the hiring process separate from the processing of payroll?  | Yes    | Yes = 1 No - 1  | 1     | 0             |
| 1.06     | Are employees hours worked verified?  | Yes    | Yes = 2 No - 1  | 2     | 0             |
| 1.07     | Is payroll processed internally?  | Yes    | Yes - 2 No = 0  | -2    | 2             |
| 1.08     | Are any employees paid on commission?   | No     | Yes - 2 No = 0  | 0     | 0             |
| <b>2</b> | <b>Miscellaneous</b>  |        |   |       | 0             |
| 2.01     | Do employees have access to the company's equipment after business hours?   | Yes    | Yes - 1 No = 1  | -1    | 2             |
| 2.02     | Are company cars or vehicles used after business hours?   | Yes    | Yes - 1 No = 1  | -1    | 2             |
| 2.03     | Have large amounts of equipment been disposed of within the last two years  | No     | Yes - 1 No = 0  | 0     | 0             |
| <b>3</b> | <b>Sales and Cash Receipts</b>  |        |   |       | 0             |
| 3.01     | Have sales increased more than 10% from the prior years?  | No     | Yes - 1 No = 0  | 0     | 0             |
| 3.02     | Does the person who handles incoming cash receipts also record transactions?  | No     | Yes - 5 No = 3  | 3     | 0             |
| 3.03     | Is a cash register used in the business?  | n/a    | Yes = 1 No - 1  | 0     | 0             |
| 3.04     | Is a bank lockbox used for processing customer payments?  | No     | Yes = 1 No - 1  | -1    | 2             |
| 3.05     | Are deposits made daily and secured prior to depositing in a safe?  | Yes    | Yes = 2 No - 1  | 2     | 0             |
| 3.06     | Are incoming checks restrictively endorsed?   | Yes    | Yes = 1 No - 1  | 1     | 0             |
| 3.07     | Is the monthly bank statement received and reviewed by someone other than the person handling the cash and checks?  | Yes    | Yes = 3 No - 1  | 3     | 0             |
| 3.08     | Is a monthly bank reconciliation completed by someone other than the person handling the deposits or with check-signing authority?  | Yes    | Yes = 3 No - 1  | 3     | 0             |
| 3.09     | If credit is extended to customers, is a credit review performed prior to granting credit?  | N/A    | Yes = 1 No - 1  |       | 0             |
| 3.1      | Does someone other than the salesperson approve credit?   | N/A    | Yes = 1 No - 1  |       | 0             |
| 3.11     | Is there a standard price list?   | N/A    | Yes = 1 No - 1  |       | 0             |
| 3.12     | Are discounts or coupons used?  | N/A    | Yes = 2 No - 0  |       | 0             |
| 3.13     | If there are discounts/coupons, are they approved by management?  | N/A    | Yes = 1 No - 1  |       | 0             |
| 3.14     | Are returns, voided transactions, and credit memos greater than 10% of all sales transaction?   | N/A    | Yes = 3 No - 0  |       | 0             |
| 3.15     | Are customer complaints directed to the owner with no screening?  | N/A    | Yes = 1 No - 1  |       | 0             |
| 3.16     | Do cash transactions exceed 20% of all sales transactions?  | No     | Yes - 5 No = 0  | 0     | 0             |
| <b>4</b> | <b>Purchasing and Cash Disbursements</b>  |        |   |       | 0             |
| 4.01     | Are inventory or supplies secured in a warehouse or place that is restricted?   | Yes    | Yes = 1 No - 1  | 1     | 0             |
| 4.02     | Are inventory or supplies counted on a periodic basis (at least annually)?  | N/A    | Yes = 3 No - 1  |       | 0             |
| 4.03     | Are inventory counts reconciled to the perpetual inventory listing maintained by the company?   | N/A    | Yes = 3 No - 1  |       | 0             |
| 4.04     | Is there a perpetual inventory system that is updated after each transaction?   | N/A    | Yes = 1 No - 1  |       | 0             |
| 4.05     | Has inventory been missing?   | No     | Yes - 2 No = 0  | 0     | 0             |
| 4.06     | Does the business have more than 20 vendors?  | Yes    | Yes - 1 No = 0  | -1    | 1             |
| 4.07     | Is there a competitive bidding process?   | Yes    | Yes = 1 No - 1  | 1     | 0             |
| 4.08     | Does the owner approve purchases over a specific dollar amount?   | Yes    | Yes = 2 No - 1  | 2     | 0             |
| 4.09     | Does the owner approve new vendors?   | Yes    | Yes = 2 No - 1  | 2     | 0             |
| 4.1      | Are purchase orders (PO's) used for ordering?   | Yes    | Yes = 1 No - 1  | 1     | 0             |
| 4.11     | When inventory or supplies are received, is the amount matched with the purchase order?   | Yes    | Yes = 2 No - 1  | 2     | 0             |

## Fraud Risk Self Assessment Tool

This tool is for management's use only and does not guarantee that fraud has not or will not occur in your organization. This is only a guide.

| #        | Description  | Yes/No | Score* (If not applicable, score is 0) | Score | Points Missed |
|----------|--|--------|--|-------|---------------|
| 4.12     | When vendor invoices are received, are they reconciled against receiving reports and PO's?   | Yes    | Yes = 2 No - 1                         | 2     | 0             |
| 4.13     | Are discount taken for early pay items?  | Yes    | Yes = 1 No - 1                         | 1     | 0             |
| 4.14     | Does the owner sign checks?  | Yes    | Yes = 5 No - 1                         | 5     | 0             |
| 4.15     | Are blank or unused checks kept secured (locked cabinet, safe, etc.)?  | Yes    | Yes = 1 No - 1                         | 1     | 0             |
| 4.16     | Are two signature ever required on checks?   | Yes    | Yes = 2 No - 1                         | 2     | 0             |
| <b>5</b> | <b>Employee Expense Reimbursement</b>  |        |  |       | 0             |
| 5.01     | Does a travel and business expense reimbursement policy exist?   | Yes    | Yes = 1 No - 1                         | 1     | 0             |
| 5.02     | Does the company reimburse employee travel?  | Yes    | Yes - 1 No = 0                         | -1    | 1             |
| 5.03     | Does the company provide a corporate credit card for employees to use while traveling?   | No     | Yes - 2 No = 0                         | 0     | 0             |
| 5.04     | Are travel "per diems" permitted?  | Yes    | Yes - 1 No = 0                         | -1    | 1             |
| 5.05     | Are actual, itemized receipts required for reimbursement?  | Yes    | Yes = 1 No - 1                         | 1     | 0             |
| 5.06     | Is a formal expense report completed?  | Yes    | Yes = 1 No - 1                         | 1     | 0             |
| 5.07     | Is a detailed list of the names of guests and the type of business activity or entertainment required for expense reimbursement?                             | Yes    | Yes = 1 No - 1                         | 1     | 0             |
| 5.08     | Does the owner approve the reimbursement?  | Yes    | Yes = 2 No - 1                         | 2     | 0             |
| 5.09     | Is there any comparison of expenses between employees to identify unusual expense patterns?  | Yes    | Yes = 1 No - 1                         | 1     | 0             |
| <b>6</b> | <b>Reporting and Monitoring</b>  |        |  |       | 0             |
| 6.01     | Do you have an external financial statement audit, review, or compilation completed?   | Yes    | Yes = 10 No - 1                        | 10    | 0             |
| 6.02     | Are " surprise audits" conducted by management, supervisors, or auditors?  | Yes    | Yes = 1 No - 1                         | 1     | 0             |
| 6.03     | Are employees encouraged to report concerns about fraudulent activities to the owner?  | Yes    | Yes = 2 No = 0                         | 2     | 0             |
| 6.04     | Is there a fraud hotline?  | Yes    | Yes = 1 No - 1                         | 1     | 0             |
| 6.05     | Is the owner or president typically at the company on a regular basis?   | Yes    | Yes = 3 No - 3                         | 3     | 0             |
| 6.06     | Does the business have a code of ethics and conflict-of-interest policy, with a mechanism for employees to report ethical problems and conflict of interest? | Yes    | Yes = 1 No - 1                         | 1     | 0             |
| 6.07     | Is there an internal audit function?   | Yes    | Yes = 10 No = 0                        | 10    | 0             |
| 6.08     | Are financial statements prepared each month or quarter and reviewed by the owner?   | Yes    | Yes = 3 No - 1                         | 3     | 0             |
| 6.09     | Are accounts (accounts receivable to the general ledger, accounts payable to the general ledger) reconciled each month and reviewed by the owner?            | Yes    | Yes = 1 No - 1                         | 1     | 0             |
| 6.1      | Are financial statements submitted to banks?   | Yes    | Yes = 3 No = 0                         | 3     | 0             |
| 6.11     | Is a cash flow statement prepared for the company?   | Yes    | Yes =3 No = 0                          | 3     | 0             |
| 6.12     | Are there any reward programs for employees or others to report concerns?  | No     | Yes = 1 No = 0                         | 0     | 1             |
|          |  |        |  | 76    | 17            |

**Scoring:** For any questions that do not apply to your organization, indicate not applicable (NA) and do not add or subtract points.

**Score** greater than 50: The company has strong controls, and fraud risk is reduced.

**Score** is between 49 and 10: Controls can be improved.

**Score** is less than 9 or negative: Fraud risk is high. Inventory and cash could be at risk for theft.

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# REPORT

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**DATE:** May 14, 2013

**TO:** Audit Committee

**FROM:** Debbie Dillon, Deputy Executive Director – Administration, 213-236-1870,  
dillon@scag.ca.gov

**SUBJECT:** Ethics Hotline Update

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**RECOMMENDED ACTION:**

For Information Only – No Action Required.

**STRATEGIC PLAN:**

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

**BACKGROUND:**

At the March 5, 2013 meeting, staff undertook to provide information to the Committee regarding the Ethics Policy and the Ethics Hotline.

**ANALYSIS:**

SCAG’s Ethics Policy is distributed to all staff on an annual basis and each staff member is required to read it and sign an acknowledgment which is kept on file in Human Resources. The most recent notice was sent to all staff on April 5, 2013. The Ethics Policy informs staff that anonymous tips may be provided using SCAG’s Ethics Hotline at 213-236-1979. The Internal Auditor monitors the Hotline. To date, no anonymous tips have been received.

To highlight staff’s access to the Ethics Hotline, the Internal Auditor reminded all staff on April 8, 2013 that they should use it to report any behavior that might be illegal, unethical or violate SCAG policy. The hotline number and copies of the Ethics Policy have been posted in all SCAG offices.

**FISCAL IMPACT:**

None.

**ATTACHMENT:**

None.

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# REPORT

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**DATE:** May 14, 2013  
**TO:** Audit Committee  
**FROM:** Richard Howard, Internal Auditor, (213) 236-1905, [howard@scag.ca.gov](mailto:howard@scag.ca.gov)  
**SUBJECT:** Risk Assessment Audit Planning

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**RECOMMENDED ACTION:**

For Information Only – No Action Required.

**STRATEGIC PLAN:**

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

**BACKGROUND:**

At the March Committee meeting, Committee members approved the adoption of the Internal Audit Manual. The Manual includes a policy of preparing an annual risk-based audit workplan. This policy includes requesting input from the Audit Committee on areas that may be perceived as potentially high risk.

The Committee is requested to review and complete the attached Risk Assessment Input Form. After reviewing, Committee members may check any of the Risk Areas shown in the left column and put a check mark next to each column to indicate if they think it is High Risk, Moderate or Low Risk. There are two spaces for any additional risk areas not listed. If you need more room, please list them in the comments section. It is not required that all Risk Areas are checked. Only check those that you would like to see audit resources directed towards.

Your selections will help establish priorities for the audit workplan for next fiscal year. Staff will weight the Risk Areas checked, prioritizing the Risk Areas from highest to lowest risk. Please provide a completed copy of the input form to me by June 1, 2013. Email is preferred at [howard@scag.ca.gov](mailto:howard@scag.ca.gov). If you have any questions, please contact me.

**FISCAL IMPACT:**

None.

**ATTACHMENTS:**

Risk Assessment Input Form.

SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS  
 RISK ASSESSMENT INPUT FORM  
 FISCAL YEAR 2013-2014

NAME OF COMMITTEE MEMBER: \_\_\_\_\_

DATE: \_\_\_\_\_

| RISK AREAS                            | DEGREE OF RISK |          |     |
|---------------------------------------|----------------|----------|-----|
|                                       | HIGH           | MODERATE | LOW |
| Cash Management                       |                |          |     |
| Financial Reporting                   |                |          |     |
| Procurement/Contracts                 |                |          |     |
| Ethics                                |                |          |     |
| Project Management                    |                |          |     |
| Information Services/Technology       |                |          |     |
| Human Resources                       |                |          |     |
| Contract/Vendor Monitoring            |                |          |     |
| Business Continuity/Recovery Planning |                |          |     |
| Strategic Plan                        |                |          |     |
| Other                                 |                |          |     |
| Other                                 |                |          |     |

COMMENTS: \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

# REPORT

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**DATE:** May 14, 2013  
**TO:** Audit Committee  
**FROM:** Catherine Chavez, CIO, 213-236-1973, chavez@scag.ca.gov  
**SUBJECT:** IT Audit Update

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**RECOMMENDED ACTION:**  
For Information Only-No Action Required.

**EXECUTIVE SUMMARY:**  
*Staff will report progress on the action items recommended in the IT Audit.*

**STRATEGIC PLAN:**  
This item supports SCAG’s Strategic Plan Goal 3: Enhance the Agency’s Long-Term Financial Stability and Fiscal Management.

**BACKGROUND:**  
SCAG’s outside independent auditor, Vasquez and Co., LLC, conducted an audit of the operations of the Information Technology Department. Their audit report was issued on December 11, 2011 and made nine (9) recommendations for improvement. Three items were completed since the last report: Items 4, 5, and 6, making a total of seven (7) recommendations completed. Status on the remaining two items:

Item 1 – **IT Strategic Plan.** Staff has prepared a draft IT Strategic Plan for review at the May IT Steering Committee meeting. Final plan is expected to be approved by June 30, 2013. The plan will support the SCAG Strategic Plan update.

Item 7 – **Business Contingency Planning.** SCAG staff is currently reviewing the first draft of the SCAG Disaster Recovery (DR) Runbook created by Allied Digital, SCAG’s IT outsource provider. The email system was migrated to the Las Vegas data center in March 2013. One remaining critical system, the main file server, will be migrated by June 30, 2013. The failover systems in the Los Angeles office will be implemented by July 31, 2013.

SCAG’s Risk Management Committee is in the process of updating the SCAG Business Resumption (BR) Plan, including roles/responsibilities and communications plan. The plan will be submitted to the IT Steering Committee for approval by July 31, 2013. Testing of both the DR and BR plans will be completed by August 31, 2013.

**FISCAL IMPACT:**  
None.

**ATTACHMENT:**  
None.