

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

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Human Development

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Cheryl Viegas-Walker, El Centro

Transportation

Keith Millhouse, Ventura County

Transportation Commission

MEETING OF THE

AUDIT COMMITTEE

Tuesday, May 15, 2012

10:30 a.m. – 11:30 a.m.

**SCAG Offices
818 W. 7th Street, 12th Floor
Policy Committee B
Los Angeles, CA 90017
(213) 236-1800**

Teleconference will also be available

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.

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

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.

The Regional Council is comprised of 84 elected officials representing 191 cities, six counties, six County Transportation Commissions and a Tribal Government representative within Southern California.

2012.05.07

Audit Committee Membership
May 2012

Members

1. Hon. Greg Pettis, Cathedral City, (**Chair**)
2. Hon. Glen Becerra, Simi Valley,
3. Hon. Glenn Duncan, Chino
4. Hon. Phil Luebben, Cypress, (**Vice Chair**)
5. Hon. Leroy Mills, Cypress
6. Hon Cheryl Viegas-Walker, El Centro
7. Hon. Edward H. J. Wilson, Signal Hill

Representing

District 2 SCAG 2nd Vice-President
District 46, SCAG 1st Vice-President
District 10
OCCOG
District 18
District 1
Gateway Cities

**AUDIT COMMITTEE
TELECONFERENCE INFORMATION
Pursuant to Government Code Section §54953**

INSTRUCTIONS REGARDING TELECONFERENCE

Please call: 1 (866) 680-0168 and enter Pass Code: 623765

For Brown Act requirements, please have your agenda posted at your teleconference location.

**Thank you. If you have any questions, please call
Carmen Summers at (213) 236-1984**

Teleconference Locations

Hon. Glen Becerra
Southern California Edison
2244 Walnut Grove Avenue, Room 475
Rosemead, CA 91770

Hon. Phil Luebben
2131 Walnut Grove Ave.
Rosemead, CA 91770

Hon. Glenn Duncan
Chino City Hall
13220 Central Avenue
Chino, CA 91710

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

Hon. Cheryl Viegas-Walker
1498 Main Street
El Centro, CA 92243

AUDIT COMMITTEE AGENDA MAY 15, 2012

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. Greg Pettis, Chair)

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

REVIEW and PRIORITIZE AGENDA ITEMS

CONSENT CALENDAR

Approval Items

- | | | | |
|--|------------|--|---|
| 1. <u>Minutes of February 29, 2012 Meeting</u> | Attachment | | 1 |
|--|------------|--|---|

INFORMATION ITEMS

- | | | | |
|---|------------|--------|----|
| 2. <u>FY 2011/12 External Financial Audit</u>
<i>(Basil Panas, Accounting Manager)</i> | Attachment | 20 min | 7 |
| 3. <u>Internal Audit Status Report</u>
<i>(Richard Howard, Internal Auditor)</i> | Attachment | 10 min | 33 |
| 4. <u>IT Steering Committee Report</u>
<i>(Debbie Dillon, Deputy Exec. Director)</i> | Attachment | 5 min | 35 |
| 5. <u>Risk Management Action Plan Report</u>
<i>(Basil Panas, Accounting Manager)</i> | Attachment | 10 min | 39 |
| 6. <u>IT Audit Letter Update</u>
<i>(Catherine Chavez, Acting Chief Info. Officer)</i> | Attachment | 15 min | 41 |

AUDIT COMMITTEE AGENDA MAY 15, 2012

TIME *PG#*

FUTURE AGENDA ITEMS

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

ANNOUNCEMENTS

ADJOURNMENT

Audit Committee
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Southern California Association of Governments

February 29, 2012

Minutes

THE FOLLOWING MINUTES ARE A SUMMARY OF ACTIONS TAKEN BY THE AUDIT COMMITTEE. AUDIO CASSETTE TAPE 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. Greg Pettis, Chair, Cathedral City. There was a quorum.

Members Present

Hon. Greg Pettis, Cathedral City (**Chair**)
Hon. Glen Becerra, Simi Valley
Hon. Glenn Duncan, Chino
Hon. Phil Luebben, Cypress (**Vice Chair**)
Hon. Leroy Mills, Cypress
Hon. Cheryl Viegas-Walker, El Centro

Representing

District 2, SCAG 2nd Vice-President
District 26, SCAG 1st Vice-President
District 10
OCCOG (Via Teleconference)
District 18
District 1 (Via Videoconference)

Members Not Present

Hon. Edward H. J. Wilson, Signal Hill Gateway Cities (Via Teleconference)

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CALL TO ORDER & PLEDGE OF ALLEGIANCE

Hon. Greg Pettis, Chair, called the meeting to order at 10:01 a.m.

PUBLIC COMMENT PERIOD

None.

REVIEW and PRIORITIZE AGENDA ITEMS

None.

CONSENT CALENDAR

Approval Items

1. Minutes of October 25, 2011 Meeting

Motion was made (Mills) to approve the Consent Calendar Approval Items.
Motion was seconded (Luebben). A roll call vote was taken. Motion passed.

INFORMATION ITEMS

2. FY 2010/11 Information Technology Audit

Wayne Moore, Chief Financial Officer, introduced SCAG's outside independent auditors, Vasquez & Company, LLC to the committee. Mr. Oscar Chacon, Information Technology Principal, provided a brief presentation of SCAG's Information Technology (IT) audit findings. Vasquez & Company's findings did not reflect any Audit Concerns regarding SCAG's internal system controls that affect financial reporting. Mr. Chacon presented a "Letter of Comments to Management," Year ended June 30, 2011, which contained observations and suggestions concerning SCAG's IT operational and administrative efficiencies. The findings do not reflect material weaknesses and are intended to help strengthen SCAG's internal controls.

The following Business Risks, Control Issues and Management responses were discussed:

- Long-term Strategic Planning for Information Technology (IT):
Staff will update the IT Strategic Plan and present for management approval by June 30, 2012. Mr. Chacon recommended annual updates going forward.
- IT Capacity Planning:
Formalized capacity reports are needed to ensure regular capacity performance on SCAG's system. SCAG has selected a new IT service provider, Allied Digital Services LLC (ADSL), whose contract is expected to begin in March 2012. ADSL's contract

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guarantees detailed, regular IT system capacity and performance reporting.

- *Information Security Independence*: An independent security function which reports to a party outside of IT operations is recommended. Hon. Leroy Mills directed attention to SCAG's Organizational Chart and asked Debbie Dillon, Deputy Executive Director which position from the organizational chart would be selected; or would a third party vendor be more appropriate to manage SCAG's information security function? Debbie Dillon responded that SCAG recently restructured their Information Technology (IT) department and it would be helpful to report back to the committee with a thorough response to Mr. Mills' questions.
- *Security Violation Reporting*: Recommendation is for management to determine an acceptable framework for logging and follow-up of security-related events on the network, specifically, internal and external (firewall) intrusions. SCAG's new IT outsource vendor, ADSL, will provide advanced security monitoring beginning on June 2, 2012. Staff was directed to take a risk-based approach to network security and to also develop third-party intrusion testing. Accordingly, this type of testing should be incorporated into SCAG's Strategic Plan. Staff concurred and will discuss the implementation.
- *Application System Parameters*
From a security perspective, documentation for MS Dynamics accounting application systems parameters which include audit logging and password management is recommended. SCAG will implement new password policies for the MS Dynamics system to match the Active Directory (AD) password policy planned for March 2012.

Catherine Chavez, Acting Chief Information Technology Officer, noted that SCAG retains an outsource vendor for infrastructure capability, and as part of the contract, the vendor is responsible for resetting passwords. Employees may contact the vendor 24 hours a day, seven (7) days a week via email or telephone to have passwords reset.

- *Periodic Certification of User Profiles in Systems*
Formalized documentation from departmental managers certifying their employees' access levels to key systems is recommended.

SCAG staff will schedule the first review of role-based security settings to be completed by June 30, 2012. Findings will be

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reported to the IT Steering Committee, which consist of SCAG's two (2) Deputy Executive Directors, CFO, CIO, Accounting Manager and the Internal Auditor. Hon. Leroy Mills asked to attend the first review committee meeting. Staff concurred and will provide Mr. Mills with the meeting details.

- *Business Contingency Planning:*
An organization-wide Business Recovery Plan is recommended. SCAG management will initiate a project to develop, approve, implement and test a Business Recovery Plan by December 31, 2012. In addition SCAG will be utilizing for its primary data center an offsite colocation facility by May 31, 2012 that will help enable contingency capabilities. A third-party vendor will be selected to help facilitate and organize the project.

Hon. Leroy Mills inquired as to the ability for SCAG to continue operations in the case of an emergency or electrical outage. Debbie Dillon stated that for the short-term, SCAG employees are equipped with laptops which will enable staff to access operations remotely. However, in order to give a more thorough and accurate response, Ms. Dillon requested additional time to prepare a report and respond to the committee members, via email or by agendaizing the item on the next Audit Committee agenda.

- *Environmental Controls Within Data Operations Room*
Recommendation for SCAG to make a formal determination as to the impact the humidity from the air conditioning units provides to the data servers and other network equipment. SCAG staff recognizes that the server rooms have inadequate environmental controls. In June 2011, SCAG obtained Board approval to relocate all production servers and related systems to an offsite colocation facility. The relocation has been scheduled for May 2012.
- *Secure Server Build Standard*
A formally documented and management approved methodology for configuring all Window servers is recommended. This will help ensure consistency with respect to security control. SCAG staff will work with its new IT managed services vendor, ADSL, to develop and implement a checklist for standardized, secure server builds. Catherine Chavez explained that the laptops are running the latest Windows 7 operating system and SCAG servers are being upgraded to Windows Server 2008 Operating Systems to ensure Microsoft's support of these systems.

Hon. Leroy Mills commented on the aggregation of the nine audit recommendations and inquired: 1) if there was sufficient budget to cover the

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expenditures required implementing the recommendations; and 2) will the committee reconvene in order to ascertain completion or can staff provide an updated status report of the recommended action items.

Wayne Moore, CFO, responded that approximately two years ago at the recommendation of SCAG's internal auditor, improvements have been made to SCAG's IT infrastructure, along with the recommendation to begin an IT Steering Committee. IT staff have systematically upgraded and hired support staff in order to complete these projects. Mr. Moore explained that there is adequate budget and available resources to comply with the recommendations listed in the IT audit. In addition, Mr. Moore expressed appreciation for the thorough audit performed by Mr. Oscar Chacon.

Additionally, as a follow-up to the recommendations, the Steering Committee minutes, in lieu of a progress report, will be submitted to the Audit Committee members.

3. Risk Management Evaluation Action Report Update

Basil Panas, Accounting Manager provided a brief update on the progress of the remaining action items recommended in the Risk Management Evaluation report which was presented at the October 25, 2011 Audit Committee meeting.

Mr. Panas reported that ten (10) of the action items had been successfully completed. The remaining five (5) action items are scheduled to be completed by June 30, 2012. Accordingly, the in-house Risk Management committee is closely monitoring the progress being made.

Although the California Joint Powers Insurance Authority's (JPIA) will conduct another site visit upon completion of the final action items, a final report will also be presented to the committee members updating the status of the remaining actions items.

4. FY 2010/11 ICAP Audit Update

Basil Panas, Accounting Manager, provided an update on the final results of SCAG's FY11 Indirect Cost Allocation Plan (ICAP) audit, which was conducted by the State Controller's Office (SCO). In July 2011, the SCO submitted its audit report to Caltrans recommending an adjustment to SCAG's FY2010/11 Indirect Cost ICAP audit rate from 97.38% to 96.02%. Caltrans informed SCAG on February 11, 2012 that the results of the audit have been accepted.

5. Internal Audit Status Report

Richard Howard, Internal Auditor, provided a brief summary of the Internal Audits that are currently in progress. Mr. Howard asked the committee members to contact him directly to provide feedback for the next fiscal year Internal Audit Workplan. An updated Workplan will be presented at the next Audit Committee meeting.

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Hon. Cheryl Viegas-Walker inquired as to the status of the external audit team, Vasquez and Company, LLC in acquiring advanced technological software and automated audit tools which can be used to augment future audits (as discussed at the October 25, 2011 Audit Committee meeting.) Staff asked the committee, as part of the external auditor's upcoming planning meeting, to include the follow-up question of acquiring automated software tools and solutions for SCAG's next audit as part of their Q &A workplan.

Inquiry was made into the auditing capability for staff credit cards. Staff responded that SCAG employees are not assigned credit cards. However, the Contract's department personnel are issued "Procurement" cards which are primarily used for small online purchases. Employee expenses are reimbursed per the guidelines outlined in SCAG's travel policy; in addition, employee expense reports are routinely audited by Richard Howard, SCAG's Internal Auditor.

STAFF REPORT

None.

FUTURE AGENDA ITEMS

1. Report and identify third-party vendor or selection from SCAG's Organization Chart to manage Information Security functions.
2. Address implementation of internal/external intrusion testing on networks.
3. Business Contingent Plan report to include current emergency operations.
4. IT Steering Committee minutes.
5. Risk Management Action Plan final report and update.

ANNOUNCEMENTS

None.

ADJOURNMENT

Hon. Greg Pettis, Chair, adjourned the meeting at 10:50 a.m. The next meeting of the Audit Committee will be scheduled at a later date.

Minutes Approved by:

Wayne Moore, Chief Financial Officer
Staff to the Audit Committee

REPORT

DATE: May 15, 2012
TO: Audit Committee
FROM: Wayne Moore, Chief Financial Officer, 213-236-1804, moore@scag.ca.gov
SUBJECT: FY 2011/12 External Financial Audit

RECOMMENDED ACTION:

Provide direction to SCAG’s external independent auditors concerning their audit of the fiscal year ending June 30, 2012.

EXECUTIVE SUMMARY:

SCAG’s external independent auditor will present the FY 2011/12 audit plan and receive Committee direction.

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 external independent auditors, Vasquez and Company LLP, will commence their preliminary work on May 21, 2012 for the audit of SCAG’s FY 2011/12 financial statements. They will discuss their audit plan and receive input and questions from the Committee.

FISCAL IMPACT:

None.

ATTACHMENT:

Vasquez & Co. LLP Audit Plan



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801 S. Grand Avenue, Suite 400, Los Angeles, CA 90017-4646 ♦ (213) 873-1700 ♦ Fax (213) 873-1777 ♦ www.vasquezcpa.com
Contact: Mr. Gilbert Vasquez, CPA ♦ Dated: May 15, 2012



801 South Grand Avenue, Suite 400 ■ Los Angeles, CA 90017-4646 ■ Ph. (213) 629-9094 ■ Fax (213) 996-4242 ■ www.vasquezcpa.com

May 15, 2012

Audit Committee
Southern California Association of Governments
818 West Seventh Street, 12th Floor
Los Angeles, CA 90017-3435

Dear Members of the Audit Committee:

We are pleased to have the opportunity to meet with you to present our plan for the audit of Southern California Association of Governments for the year ending June 30, 2012.

This presentation has been prepared to discuss the audit.

We look forward to meeting with you to present this information, address your questions and discuss any other matters of interest to the Audit Committee.

Please feel free to contact me at (213) 873-1700 with any questions you may have.

Very truly yours,

Gilbert R. Vasquez
Managing Partner
Vasquez & Company LLP

AGENDA

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ENGAGEMENT TEAM

GILBERT VASQUEZ

Coordinating Partner

FEDERICO QUINTO

Engagement Partner

PEGGY MCBRIDE

Concurring Partner

OSCAR CHACON

I.T. Principal

LINDA NARCISO

Manager

SUSAN GARCIA

Supervisor

EXECUTIVE SUMMARY

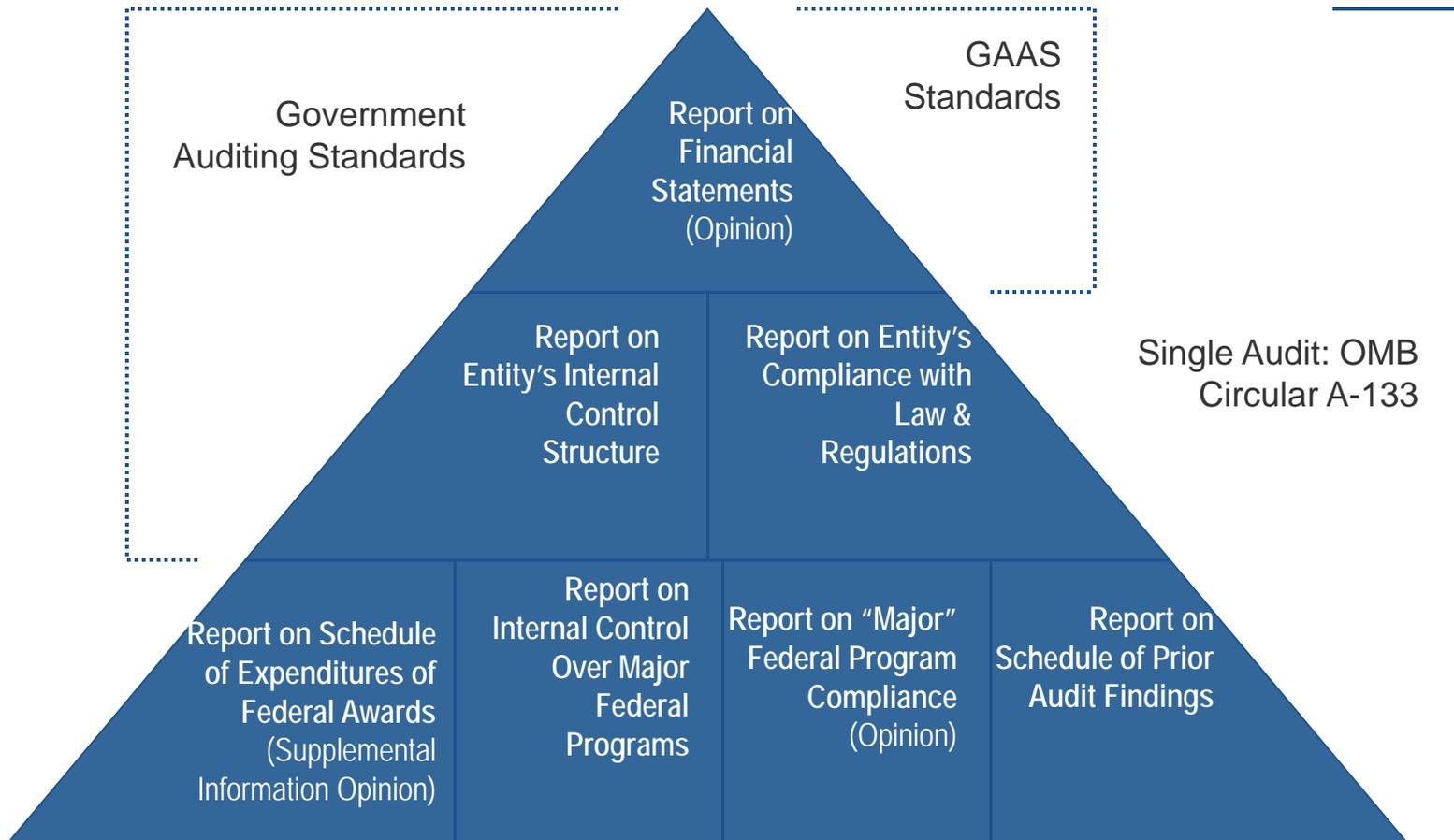
This document outlines our audit strategy and approach for the 2012 audit of the Southern California Association of Governments (SCAG) and is provided to give the Audit Committee the opportunity to review, discuss and comment on our plan.

This document provides:

- An overview of our audit approach.
- Plan for continuous, communication and reporting to the Audit Committee and management.
- Audit Timeline
- Management and auditors' responsibilities in relation to the audit.

Given the complexity of SCAG's activities, some modifications of the scope of our plan may be required as we execute our audit. We will advise the Audit Committee of any significant changes.

LEVELS OF ASSURANCE



OUR AUDIT OBJECTIVES

Our engagement will be focused on delivering our services at three levels:

For the public and government agencies	Independent opinions and reports that provide assurance on the financial information released by SCAG.
For SCAG Audit Committee and Regional Council	Assistance in discharging their corporate governance compliance responsibilities.
For Management	Observations and advice on financial reporting.

Our primary objective is the expression of an opinion on SCAG's financial statements in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards which includes:

- Obtaining reasonable assurance as to whether the financial statements are prepared in accordance with U.S. generally accepted accounting principles and are free of material misstatement, whether caused by error or fraud; and
- In planning and performing our audit, we will consider SCAG's internal control over financial reporting as a basis for designing auditing procedures.
- Perform tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts.

SCAG EXPECTATIONS

We have identified areas that we believe outline SCAG's expectations. Please let us know if you have additional expectations.

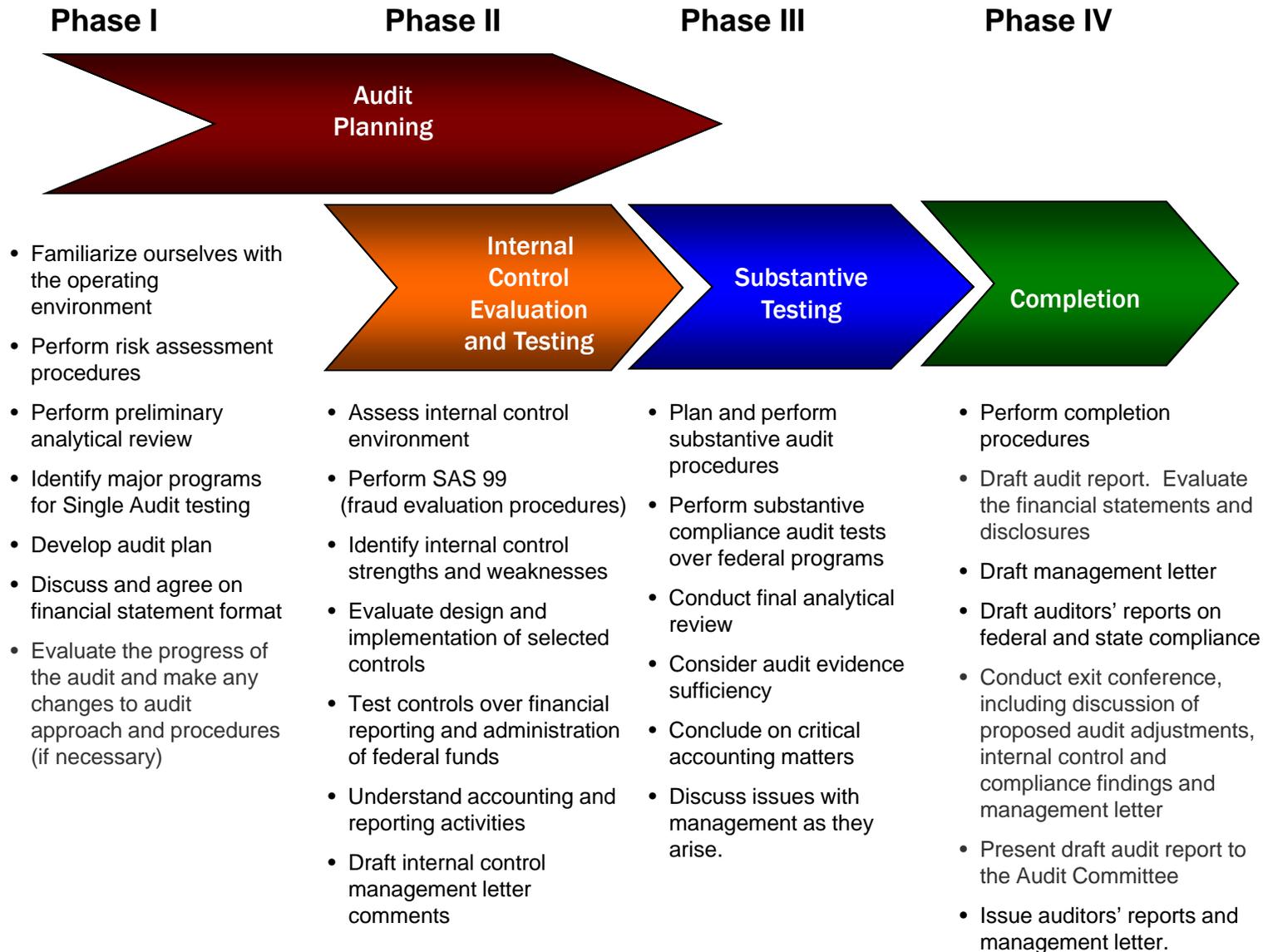
- Understand SCAG's business and operating environment.
- Communicate frequently and timely.
- Commit to frequent meetings to discuss critical accounting matters and discuss areas of judgment.
- Maintain high standards of quality with an efficient approach.
- Identify significant audit findings and propose adjustments in a timely manner.
- Perform audits under applicable standards

VASQUEZ EXPECTATIONS

- Update our staff with the flow of information through the various departments and accounting systems and the system of internal controls.
- Provide requested audit schedules and supporting information on a timely manner.
- Type of all confirmations requested.
- Take responsibility for all accounting decisions.
- Continue to provide normal and reasonable access to accounting personnel.
- Assist in preparation of the CAFR and footnotes and take responsibility for preparation of SCAG's Financial Statements*.
- Prepare the management's discussion and analysis, transmittal letter and all statistical tables for the CAFR.
- Post appropriate closing entries to minimize the number of audit adjusting entries required.
- **Inform Vasquez & Co. of all known or suspected fraud or illegal acts affecting SCAG.**
- Complete Vasquez & Co. Client Survey Questionnaire.

* If we assist in the preparation of the financial statements SAS 115 requires that we evaluate if it is a control deficiency, a significant deficiency or a material weakness. Further, you will still need to take responsibility for the financial statements.

OUR AUDIT METHODOLOGY



SIGNIFICANT AUDIT AREAS

Based on our review of the prior year CAFR, we have identified the following as our most significant audit areas:

- Cash and cash equivalents
- Advances to and from other funds
- Revenues, accounts receivables and deferred revenues
- Expenditures and accounts payable
- Capital assets
- Compliance with grant agreements and OMB Circular A-133
- Other areas on which the Audit Committee wants Vasquez & Company LLP to focus

For the 2012 audit, Vasquez & Company LLP will use IDEA software on the following:

- Review of journal entries
- Review of cash disbursements

PLANNED AUDIT APPROACH

Cash and cash equivalents

- Confirm cash balances
- Confirm investment balances with banks/custodian
- Test bank reconciliation statements
- Test controls over cash receipts and disbursements

Advances to and from other funds

- Review propriety of balance and movement as of and for the year ended June 30, 2012

Expenditures and accounts payable

- Perform analytical procedures for expenditures
- Perform search for unrecorded expenditures/liabilities

Revenues and accounts receivables

- Confirm revenues from the federal, state, and local governments and others
- Test subsequent collections and perform search for unrecorded receivables

PLANNED AUDIT APPROACH

Capital assets

- Test and evaluate propriety of additions during the year
- Test reasonableness of depreciation

Compliance with grant agreements and OMB Circular A-133

- Test compliance with grant agreements and OMB A-133 Compliance Supplements
- Test internal controls over major programs

AUDIT MATERIALITY

Quantitative guidelines we use to establish materiality may range up to 10% of the change in net asset and 1% of revenue of SCAG.

For the purposes of audit testing, we generally use procedures designed to detect misstatements (either individually or in the aggregate) in account balances that range from one-third to three-quarters of the amount considered material.

When evaluating misstatements we also consider qualitative factors. We encourage management to record adjustments for all misstatements other than those that are clearly inconsequential.

Misstatements and fraud will be discussed with you as well as appropriate levels of management.

INDEPENDENCE

There are no relationships between any of our representatives and SCAG that in our professional judgment may reasonably be thought to bear on independence.

Vasquez & Company LLP meets the independence requirements of the Government Auditing Standards (2007), as published by the United States Government Accountability Office (“Yellow Book”) as it relates to SCAG.

AUDIT TIMELINE

Description	Responsibility	Scheduled Date
Entrance Meeting (presentation of the audit plan to the Audit Committee)	V&Co	May 15, 2012
Entrance meeting with Finance - Interim Work	V&Co/SCAG	May 21, 2012
Interim Work	V&Co	May 21 to June 1, 2012
Entrance conference - Year End	V&Co/SCAG	September 10, 2012
Year End Fieldwork	V&Co	September 17 to October 12, 2012
Exit meeting	V&Co/SCAG	October 15, 2012
Draft report	V&Co	October 26, 2012
Presentation to the Audit Committee	V&Co	November 2012
Final report	V&Co	November 2012

Government Auditing Standards, December 2011 Revision

Effective Date:

Financial audits and attestation engagements: Period ending after 12/15/2012

Performance audits: Audits beginning on or after 12/15/2011

Summary of Major Changes:

- ❑ *A conceptual framework for independence was added to provide a means for auditors to assess auditor independence to activities that are not expressly prohibited.*
- ❑ *Requirements for auditors performing nonaudit services at entities they audit, including a requirement that auditors assess whether management possesses suitable skill, knowledge, or experience to oversee the nonaudit service and to document that assessment, were established.*
- ❑ *Guidance on nonaudit services that always impair an auditor's independence with respect to audited entities and on certain nonaudit services that may be permitted under appropriate conditions was substantially revised.*
- ❑ *A summary of requirements on documentation necessary to support adequate consideration of auditor independence was added, incorporating requirements applicable under the new conceptual framework.*
- ❑ *The reporting requirement for fraud now includes only those occurrences that are significant within the context of the audit objectives for performance audits.*

New Statements of Auditing Standards

SAS No. 119 – Supplementary Information in Relation to the Financial Statements as a Whole (Effective for 2012 audit)

This Standard addresses the auditor's responsibility when engaged to report on whether supplementary information is fairly stated, in all material respects, in relation to the financial statements as a whole, which includes among others:

- *Inquire with management about the purpose of the supplementary information and the criteria used by management to prepare the supplementary information.*
- *Determine whether the form and content of the supplementary information complies with the applicable criteria.*
- *Obtain an understanding about the methods of preparing the supplementary information and determine whether the methods of preparing the supplementary information have changed from those used in the prior period and, if the methods have changed, the reasons for such changes.*

New Statements of Auditing Standards

SAS No. 119 – Supplementary Information in Relation to the Financial Statements as a Whole (Continued)

- *Compare and reconcile the supplementary information to the underlying accounting and other records used in preparing the financial statements or the financial statements themselves.*
- *Inquire of management about any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.*
- *Evaluate the appropriateness and completeness of the supplementary information, considering the results of the procedures performed and other knowledge obtained during the audit of the financial statements.*

New Statements of Auditing Standards

SAS No. 120 – Required Supplementary Information (Effective for the 2012 audit)

This Standard addresses the auditor's responsibility with respect to information that a designated accounting standard setter requires to accompany an entity's basic financial statements (required supplementary information). Important provisions includes, among others:

- *Requires the auditor to apply certain procedures to the required supplementary information.*
- *Requires that the auditor include an explanatory paragraph in the auditor's report on the financial statements to refer to the required supplementary information and include language to explain the following circumstances, as applicable:*
 - a. *The required supplementary information is included, and the auditor has applied the procedures required by the Standards.*
 - b. *The required supplementary information is omitted.*

New Statements of Auditing Standards

SAS No. 120 – Required Supplementary Information (Continued)

- c. Some required supplementary information is missing and some is presented in accordance with the prescribed guidelines.*
- d. The auditor has identified material departures from the prescribed guidelines.*
- e. The auditor is unable to complete the procedures.*
- f. The auditor has unresolved doubts about whether the required supplementary information is presented in accordance with the prescribed guidelines.*

New Statements of Auditing Standards

SAS No. 121 – Revised Applicability of Statement on Auditing Standards No. 100, *Interim Financial Information**

This Standard amends SAS No. 100 such that AU Section 722 would be applicable when the accountant audited the entity's latest annual financial statements, and the appointment of another accountant to audit the current year financial statements is not effective prior to the beginning of the period covered by the review.

** Not applicable to SCAG*

New Statements of Auditing Standards

New SASs effective for audits of financial statements for periods ending on or after December 15, 2012:

- SAS No. 122 – Clarification and Recodification
- SAS No. 123 – Omnibus Statements on Auditing Standards – 2011
- SAS No. 124 – Financial Statements Prepared in Accordance with a Financial Reporting Framework Generally Accepted in Another Country
- SAS No. 125 – Alert that Restricts the Use of the Auditor’s Written Communication

NEW GASB PRONOUNCEMENTS

- GASB 60** – Accounting and Financial Reporting for Service Concession Arrangements
(effective for 2013 audit)
- GASB 61** – The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34 (effective 2013 audit)
- GASB 62** – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (effective for 2013 audit)
- GASB 63** – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (effective for 2013 audit)
- GASB 64** – Derivative Instruments – Application of Hedge Accounting Termination Provisions – an Amendment of GASB 53 (effective for 2012 audit)
- GASB 65** – Items Previously Reported as Assets and Liabilities (effective for 2014 audit)
- GASB 66** – Technical Corrections – 2012 – an Amendment of GASB 10 and 62 (effective for 2014 audit)

QUESTIONS?

* * *

THANK YOU!

We are looking forward to working closely with you and the management during the FY 11-12 audit

REPORT

DATE: May 15, 2012
TO: Audit Committee
FROM: Richard Howard, Internal Auditor, (213) 236-1905, howard@scag.ca.gov
SUBJECT: Internal Audit Status Report

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, three preaward audits of contract proposals over \$250,000 were performed. Also, Internal audit has assumed the role of independent security oversight for the Information Technology (IT) department with a dotted-line relationship to the IT management. As you recall, an independent security function was one of the recommendations made by SCAG's outside auditors, Vasquez and Company LLP, in their audit of the IT department.

As part of the continuing internal audit program, a comparison of consultants' addresses to employee addresses has been started.

An internal audit workplan for the fiscal year 2012 through 2013 is attached for your review.

FISCAL IMPACT:

None.

ATTACHMENT:

Fiscal Year 2012/2013 Internal Audit Workplan

Date: May 15, 2012
 To: Audit Committee
 From: Richard Howard, Internal Auditor
 Subject: Internal Audit Work Plan for Fiscal Year (FY) 2012/2013

		Audit Hours	
		Plan	Actual Past
		FY 2012/2013	Twelve Months
1. Perform pre-award audits of contracts over \$250,000		700	623
2. Review Information Technology controls, policies and procedures		200	168
3. Review subregion audit reports and internal controls		50	37
4. Review Travel expenses		50	86
5. Review Planning Grants		150	140
6. Review Contracts and Procurement		100	84
7. Audit Committee		50	98
8. Staff and Regional Council Meetings		175	174
9. Internal audits of SCAG		275	357
	Total	1750	1767
Indirect		330	330
	Total Hours	2080	2097

REPORT

DATE: May 15, 2012
TO: Audit Committee
FROM: Debbie Dillon, Deputy Executive Director, 213-236-1870, dillon@scag.ca.gov
SUBJECT: Information Technology (IT) Steering Committee Minutes

RECOMMENDED ACTION:

For Information Only-No Action Required.

EXECUTIVE SUMMARY:

Staff submits the action minutes from the March 15, 2012 IT Steering Committee meeting.

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 last Audit Committee meeting on February 29, 2012, staff agreed to provide a copy of the minutes of the Information Technology Steering Committee as a monitoring tool to track progress in responding to the recommendation in the external auditor's Information Technology Audit. The Information Technology Committee includes key agency staff responsible for the oversight of agency technology strategic planning and capacity. The Steering Committee meets quarterly.

FISCAL IMPACT:

None.

ATTACHMENT:

March 15, 2012 IT Steering Committee Minutes

SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS

**INFORMATION TECHNOLOGY STEERING COMMITTEE
MINUTES OF MEETING**

MARCH 15, 2012

**THE FOLLOWING MINUTES ARE A SUMMARY OF ACTIONS TAKEN BY THE
INFORMATION TECHNOLOGY (IT) STEERING COMMITTEE**

The Information Technology Steering Committee met at the SCAG Los Angeles Office March 15, 2012. The meeting was called to order by Chair Debbie Dillon at 3:03 p.m.

<u>Members</u>	Present
Debbie Dillon, Deputy Executive Director, Administration	✓
Sharon Neely, Deputy Exec Director - Interim, Policy, Strategy & Public Affairs	
Catherine Chavez, Acting Chief Information Officer, Administration	✓
Wayne Moore, CFO, Finance	✓
Joann Africa, Director of Legal Services/Chief Counsel, Legal Services	✓
Rich Macias, Director of Transportation Planning, Planning and Programs	✓
Huasha Liu, Director of Planning Land Use & Enviro., Planning Land Use & Enviro.	
Basil Panas, Manager of Accounting, Finance	✓
Darin Chidsey, Senior Analyst to the Exec Director, Executive	✓
Alex Yu, Acting Manager of IT Application Development, Administration	✓
Richard Howard, Internal Auditor, Finance	✓

I. Approval of Minutes – Meeting of October 27, 2011

Chair Debbie Dillon began the meeting with the minutes of the October 27, 2011 IT Steering Committee meeting. The minutes of the meeting were approved without revisions. Debbie Dillon reported that all future IT Steering Committee meeting minutes will be shared with the Audit Committee per their request at their February 29, 2012 meeting.

II. IT Audit Findings and Remediation

Catherine Chavez presented an update on the external audit findings and remediation. Ms. Chavez referred to the Letter of Comments to Management, Southern California Association of Governments; *Year ended June 20, 2011*.

A. Business Risks and Other Control Issues

1. Long-term Strategic Planning for IT
 - a. The IT Strategic Plan will be updated by June 30, 2012, then annually. This update will reflect the SCAG 2009 Strategic Plan and recent initiatives.
2. IT Capacity Planning
 - a. SCAG concurs with the recommendation that regular capacity reports are needed. Our new vendor, Allied Digital Services LLC (ADSL), whose contract is expected to begin in March 2012, will provide regular capacity and performance reports.
3. Information Security Independence
 - a. SCAG has created an information security oversight role that is not involved in daily IT operations, but will report to IT management and Richard Howard, Internal Auditor. This function is expected to be filled by staff member Royalan Swanson and implemented within 90 days after the new selected IT outsource vendor contract is initiated.
4. Security Violation Reporting
 - a. The new IT outsource vendor, ADSL, will provide advanced security event logging using a network of global Network Operations Centers and Security Operations Centers.
5. Application System Parameter
 - a. SCAG will implement consistent password policies in March 2012. Alex Yu will review, document and update system processing parameters for Dynamics GP, the financial system. The first cycle of documentation and review will be completed by May 31, 2012 or 90 days after ADSL contract is in place.
6. Periodic Certification of User Profiles in Systems
 - a. SCAG management will implement a formal, periodic access certification procedure. User access rights will be approved by managers every 12 months via email for documented proof. The first review is scheduled to be completed by June 30, 2012.
7. Business Contingency Planning
 - a. SCAG management will initiate an Enterprise project to develop, approve, implement and test a Business Resumption/Contingency plan by December 2012. [Note from Debbie Dillon: Staff will confirm this target date after internal review of resources required for project completion.]
8. Environmental Controls Within Data Operations Room
 - a. Due to insufficient environmental controls, SCAG will be relocating the Server Room to an outside facility in May 2012.
9. Secure Server Build Standard
 - a. SCAG will work with its new IT managed services vendor, ADSL, to develop and implement a checklist for standardized, secure server builds. ADSL will first review all security functions and provide SCAG with recommendations. SCAG will also arrange for a third

party to perform network intrusion testing per recommendation of the Audit Committee.

III. IT Projects and Activities

Catherine Chavez presented an update on IT projects and activities.

A. Colocation/Data Center Recommendation – Switch SuperNAP

1. Las Vegas, NV- low risk for disaster
2. Superior physical security
3. High energy & high redundancy for all systems
4. Colocation Proposal Comparison

B. IT Outsource Vendor Transition

1. SCAG expects to have a signed 5-year contract from ADSL by Monday, March 26, 2012.
2. There is a high risk of disruption to end-users during the outsource vendor transition, especially if the current onsite technician is not employed by ADSL. However, 90 days after the beginning of the ADSL contract, it is expected that ADSL will provide better service than the current vendor, with 80% of calls answered on the first call.

C. IT Project List

1. Debbie Dillon directed committee members' attention to the IT project list attachment and asked them to get back to her with any comments after the meeting.

IV. Organizational Changes and Process

Debbie Dillon presented an update on organizational changes and process related to the IT organization.

V. Committee Recommendations and Action Items

Debbie Dillon requested committee recommendations and action items.

- A. Debbie Dillon asked if anyone had any objections to the recommendation to select Switch SuperNAP for the Colocation Center. There were none. Debbie Dillon stated that we will move forward with implementing the recommendation.
- B. Basil Panas, Manager of Accounting asked if any clients ever had a disaster and had to utilize SuperNAP for disaster recovery and has their backup facility been tested. Catherine Chavez said that she would ask the vendor and get back to the IT Steering Committee.

VI. Adjournment

The meeting was adjourned at 4:03 p.m. The next meeting of the IT Steering Committee will be May 31, 2012 from 11:00 a.m. to 12:00 p.m.

REPORT

DATE: May 15, 2012
TO: Audit Committee
FROM: Wayne Moore, CFO, 213-236-1804, moore@scag.ca.gov
SUBJECT: Risk Management Evaluation Action Report Update

RECOMMENDED ACTION:
For Information Only-No Action Required.

EXECUTIVE SUMMARY:
Staff will report progress on the action items recommended in the Risk Management Evaluation.

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 insurer, the California Joint Powers Insurance Authority (JPIA), performed a risk management evaluation in December 2010 as part of its LossCAP Program. The JPIA assessed SCAG's policies, procedures and practices with respect to its risk exposures. The final report identified 15 action items designed to reduce future losses. Attached is a summary of the progress made in executing the action items. One action item (RME No. 06-02) has been completed since the last Audit Committee meeting. A total of six (6) recommendations have now been completed. All remaining recommendations will be completed by June 30, 2012, except one action item (RME No. 10-02) which will be completed by December 31, 2012.

FISCAL IMPACT:
None.

ATTACHMENT:
LossCAP Action Plan

SCAG
LossCAP ACTION PLAN
RME Date: 12/14/2010

IMPORTANT PRIORITY

RME No.	TYPE	ACTION ITEM	STATUS
06-02	Concurrent	Revise the Injury & Illness Prevention Program	Completed
06-05	Concurrent	Develop & implement a Hazard Communication Program (HCP)	Assessment determined that an HCP was not needed
06-06	Concurrent	Assess exposure to blood and infectious materials	Assessment determined there was no exposure
06-06	Concurrent	Develop & implement a written lockout/tagout program	Assessment determined that no program was needed
10-01	New	Website does not meet current accessibility standards	Website meets accessibility standards
10-02	New	Develop or revise the formal records retention policy to include retention of electronic data & media	SCAG's Records Management Policy now includes the E-Communications Policies & Procedures as Appendix A which lays out the retention policy for electronic data & media. Full implementation will be completed by Dec. 31, 2012.

AVERAGE PRIORITY

RME No.	TYPE	ACTION ITEM	STATUS
06-03	Concurrent	Develop & implement a centralized safety manual	Draft is being reviewed by Safety Committee
06-10	Concurrent	Establish a Transitional Return to Work Policy	Draft is under review
10-03	New	Develop & implement a Repetitive Motion Injury Control Program	Draft is in progress
10-04	New	Provide a pre-designated physician form to all employees	Completed
10-05	New	Maintain the log and summary of occupational injuries and illnesses	Completed
10-06	New	Include safety compliance when conducting employee performance evaluations	Completed
10-07	New	Instruct supervisors to notify CalOSHA of serious employee injury or illness, or death	Completed
10-08	New	Develop & implement an automatic external defibrillator program (AED)	Program is being developed by the Safety Committee
10-09	New	Report the number of agency volunteers to the CalJPIA	Completed

REPORT

DATE: May 15, 2012

TO: Audit Committee

FROM: Catherine Chavez, Acting Chief Information Officer, 213-236-1973,
chavez@scag.ca.gov

SUBJECT: Information Technology Audit Update

RECOMMENDED ACTION:

For Information Only-No Action Required.

EXECUTIVE SUMMARY:

At the February 29, 2012 Audit Committee meeting, SCAG Auditors Vasquez and Company LLP presented observations and suggestions for strengthening SCAG's internal controls over information technology. These matters did not represent significant deficiencies, material weaknesses in internal control, or material instances of noncompliance. Status on improving these controls is hereby provided to the Audit Committee for informational purposes and additional input.

STRATEGIC PLAN:

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

BACKGROUND:

SCAG staff and Information Technology outsource vendor, Allied Digital Services LLC, are diligently working on the recommended improvements to SCAG's internal controls. This project is planned for completion by December 31, 2012.

FISCAL IMPACT:

None.

ATTACHMENT:

IT Audit Status Report

IT Audit Letter Update

May 9, 2012

At the February 29, 2012 Audit Committee meeting, SCAG Auditors Vasquez and Company LLP presented observations and suggestions for strengthening SCAG's internal controls over information technology. These matters did not represent significant deficiencies, material weaknesses in internal control, or material instances of noncompliance.

A summary of observations and status as of May 9, 2012 follow:

BUSINESS RISKS AND OTHER CONTROL ISSUES

1. Long-term Strategic Planning for Information Technology (IT)

Recommendation:

That SCAG management should ensure the IT Strategic Plan is adequately updated with the current and future projects and linked to the overall organizational strategic plan

Management response:

SCAG staff will update the IT Strategic Plan by September 30, 2012 to obtain management consensus and approval of IT initiatives. This update will take into account the organizational objectives outlined in the SCAG 2009 Strategic Plan and more recent executive directives.

Status:

Survey materials to gather staff input are in development. Scheduling of division and department interviews is in progress.

2. IT Capacity Planning

Recommendation:

We recommend that management implement a process to generate and review system activity and utilization reports on a consistently scheduled basis. Special consideration should be given to the accounting system's related processes and infrastructure.

Management response:

SCAG initiated a competitive bid process in late 2011 to select a new IT managed services provider, Allied Digital Services LLC (ADSL), whose contract is expected to begin in March 2012. ADSL's contract guarantees detailed, regular IT system capacity and performance reporting.

Status:

ADSL began IT support work in late March 2012. ADSL has completed its automated device inventory and begun hardware and software installation required to monitor and report capacities of servers and network connections. Tasks to complete configuration, testing, implementation and reports are scheduled through June 16, 2012.

IT Audit Letter Update

May 9, 2012

3. Information Security Independence

Recommendation:

We recommend that the Information Security function report to a party outside of IT, or to an IT-related party that is independent of Operations.

Management response:

SCAG will create an information security oversight role that reports directly to IT management and is not involved in daily IT operations. IT security reporting will be presented on a quarterly basis to the IT Steering Committee.

Status:

The Senior Management Analyst has been assigned information security oversight duties. This position reports directly to the Chief Information Officer, with dotted line reporting to the SCAG Internal Auditor. This recommendation was approved by the IT Steering Committee at its March 15, 2012 meeting. Introductory training in IT Audit is being scheduled for completion by late summer. Because this is a new function within SCAG, the IT Steering Committee will review the effectiveness of this change by August 31, 2012.

4. Security Violation Reporting

Recommendation:

We recommend that management determine an acceptable framework for logging and follow-up of security-related events on the network.

Management response:

ADSL, the new IT outsource vendor, will provide advanced security event monitoring using a network of global Network Operations Centers (NOCs) and Security Operations Centers (SOCs). This service is expected to begin on June 2, 2012 and be fully tested and functional by August 2, 2012.

Status:

ADSL has identified SCAG's Internet-facing devices and is on track for adding these devices to its monitoring and alerting systems. Testing will begin in May 2012 and is expected to be fully functional in August 2012. A vulnerability assessment of the external and internal networks, to be completed by an independent information security testing firm, will be scheduled after the relocation of servers to the new colocation center (see item 8 below.) This firm will be selected through a competitive bid process.

5. Application System Parameters

Recommendation:

We recommend that management identify the (Dynamics GP) system parameter settings and review for potential control enhancement and optimization. From a security perspective, management should consider enabling parameters related to audit logging at the application level to strengthen the forensic capabilities of the organization. Formal procedures should be implemented where the system parameters are reviewed on a periodic basis for unauthorized changes.

IT Audit Letter Update

May 9, 2012

Management response:

SCAG will implement new password policies for the MS Dynamics system to match the Active Directory (AD) password policy planned for March 2012. Audit trail will be reviewed and expanded to all critical modules. SCAG staff will review, document and update MS Dynamics system processing parameters. The SCAG security oversight function will review these parameters periodically to ensure no unauthorized changes have occurred. The first cycle of documentation and review will be completed by May 31, 2012 and will occur quarterly in the future.

Status:

The new SCAG password policies have not yet been implemented due to the onboarding process for ADSL. These will be implemented by July 31, 2012. The review of GP system parameters and documentation is scheduled to be completed by May 31, 2012.

6. Periodic Certification of User Profiles in Systems

Recommendation:

We recommend that management implement a formal access certification procedure where departmental managers are asked to certify their employee's access levels to key systems. Authorizations should be required on formalized documentation from departmental managers, and should be required every 6 – 12 months.

Management response:

SCAG IT staff establishes and reviews role-based security settings whenever systems or network folders are implemented or updated. As an additional security precaution, SCAG management will ensure that a formal periodic access certification procedure be implemented. User access rights will be approved by department managers every 12 months. SCAG staff will schedule the first review to be completed by June 30, 2012. Findings will be reported to the IT Steering Committee.

Status:

The Senior Management Analyst has created the first Dynamics GP user access review for review by the managers of Accounting and Human Resources. Response will be completed by May 31, 2012. A full GP access review will be completed with ADSL assistance. This has been communicated, but not yet scheduled.

7. Business Contingency Planning

Recommendation:

To ensure prompt and proper reaction to service disruptions, we recommend that management document an organization-wide business contingency plan. The plan should be detailed and well organized to reflect the chosen strategies and activities for business resumption.

Management response:

SCAG management will initiate a project to develop, approve, implement and test a Business Recovery plan by December 30, 2012. In addition, SCAG will be utilizing for its primary data center an offsite colocation facility by May 31, 2012 that will help enable its contingency capabilities. The secondary data center site will be located at the Los Angeles office until a permanent recovery site is identified.

IT Audit Letter Update

May 9, 2012

Status:

SCAG currently has limited ability to continue business operations by using staff laptop devices and mobile phones. Staff laptops may connect to SCAG servers using Cisco Anyconnect VPN from any Internet connection. Should it be necessary, a staff member's home computer may connect using Citrix remote desktop services. For the purpose of server disaster recovery, SCAG IT sends tape backups of servers, network devices, and critical workstations to an offsite media storage provider. In the event that the Los Angeles server room became completely inaccessible, IT staff would procure the necessary hardware for the recovery of systems. Within two weeks maximum, it is estimated that core business systems would be functional and usable by staff.

To reduce the current delay and expedite business resumption, SCAG IT has put into motion the necessary steps to develop a more comprehensive recovery process. SCAG has signed a contract with Switchnap, a robust colocation facility located in Las Vegas, Nevada. This contract will create a primary data center in Las Vegas and a secondary, failover site at our current facility in Los Angeles. In the event that the Los Angeles or other SCAG offices were shut down by disaster, SCAG servers and data in the primary data center in Las Vegas would be accessible through any Internet connection using staff laptops or home computers. Staff affected by the disaster and unable to report to work would work from home or be assigned to report to unaffected offices or new locations. These locations could either be leased or made available through partners. In the unlikely event that the primary data center in Las Vegas became inaccessible, business would resume utilizing the secondary data center in Los Angeles. In this case, SCAG operations would continue, but with functionality initially limited to critical core business systems.

SCAG maintains an up-to-date emergency preparedness plan for evacuation of its Los Angeles office. SCAG completed a technical disaster recovery plan in 2008, but must update the plan based on the new data center architecture. As recommended by Vasquez and Co., SCAG must also create a companion business contingency, or business resumption, plan. This plan will contain written processes for staff communications, reporting procedures, technical instructions, and manual processes for certain business functions, if required.

An internal evaluation of available staff resources to accomplish these projects will be completed by July 31, 2012. If SCAG management determines that consultant help is required, a competitive bidding process for a consultant contract will commence in July 2012. All plan updates are scheduled for completion by December 31, 2012.

8. Environmental Controls Within Data Operations Room

Recommendation:

We recommend SCAG make a formal determination as to the impact the humidity from the air conditioning units provides to the data servers and other network equipment, via formal discussion with vendor representatives, and identify a manner in which condensated water can be kept out of the data operations room.

Management response:

In June 2011, SCAG obtained Board approval to relocate all production servers and related systems to an offsite colocation facility that provides industry-standard environmental and power controls and redundancy. The relocation has been scheduled for May 2012.

IT Audit Letter Update

May 9, 2012

Status:

In May 2012, SCAG staff received approval from the Regional Council to enter into a contract with Switch Communications for a colocation site called Switchnap in Las Vegas, NV. The facility provides comprehensive environmental controls, including humidity control and redundancy of cooling and power systems. The start-up date is approximately June 15, 2012. Los Angeles servers will be scheduled to relocate to the new facility by mid-July 2012.

9. Secure Server Build Standard

Recommendation:

Management should ensure that SigmaNet utilizes a secure server standard for all SCAG servers that is utilized for new server builds and existing server security assessment. This will help ensure consistency with respect to security control.

Management response:

SCAG will work with its new IT managed services vendor, ADSL, to develop and implement a checklist for standardized, secure server builds. This checklist will be completed within 90 days of the commencement of the ADSL contract.

Status:

ADSL will prepare a written, secure server build standard by July 31, 2012. Additionally, staff has requested a scope of work from ADSL for assessing the security of existing servers. Based on the findings, out-of-compliance servers will be scheduled for reconfiguration.