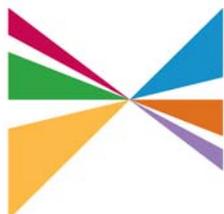


SOUTHERN CALIFORNIA



**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

Immediate Past President

Pam O'Connor, Santa Monica

**Executive/Administration  
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, June 26, 2012  
10:00 a.m. – 11:00 a.m.***

**SCAG Offices  
818 W. 7<sup>th</sup> Street, 12<sup>th</sup> 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](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.

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***  
*June 2012*

**Members**

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

**Representing**

**District 47, SCAG, 2<sup>nd</sup> Vice-President**  
**District 46, SCAG, President**  
**District 2, SCAG, 1<sup>st</sup> Vice-President**  
**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 Ave.  
Rosemead, CA. 91770

Hon. Carl Morehouse  
c/o SCAG Ventura County Regional Office  
950 County Square Drive, Ste. 101  
Ventura, CA 93003

Hon. Greg Pettis  
City Hall  
68-700 Ave Lalo Guerrero  
Cathedral City, CA 92234

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

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 JUNE 26, 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. Carl Morehouse, 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.

## **SELECTION OF VICE CHAIR**

## **REVIEW and PRIORITIZE AGENDA ITEMS**

## **CONSENT CALENDAR**

### **Approval Items**

- |   |                   |          |
|---|-------------------|----------|
| 1. <u>Minutes of May 15, 2012 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>10 min</b> | <b>7</b> |
| 3. <u>Risk Management Action Plan Report</u><br><i>(Basil Panas, Acting CFO)</i>    | <b>Attachment</b> | <b>10 min</b> | <b>9</b> |

## **ACTION ITEM**

- |   |                   |               |           |
|---|-------------------|---------------|-----------|
| 4. <u>Peer Review of Internal Audit Update</u><br><i>(Richard Howard, Internal Auditor)</i> | <b>Attachment</b> | <b>10 min</b> | <b>11</b> |
|---|-------------------|---------------|-----------|

**Recommended Action:** Staff recommends that the Audit Committee recommend that the Regional Council Adopt the Generally Accepted Government Auditing Standards Issued by the Comptroller General of the United States.

# AUDIT COMMITTEE AGENDA JUNE 26, 2012

---

		<i>TIME</i>	<i>PG#</i>
5. <u>Audit Committee Meeting Schedule</u> ( <i>Basil Panas, Acting CFO</i> )	<b>Attachment</b>	<b>5 min</b>	<b>13</b>

**Recommended Action:** Approve Proposed Meeting Schedule.

## **FUTURE AGENDA ITEMS**

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

## **ANNOUNCEMENTS**

## **ADJOURNMENT**

---

Audit Committee  
of the  
Southern California Association of Governments

May 15, 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. Phil Luebben, Cypress (**Vice Chair**)  
Hon. Leroy Mills, Cypress  
Hon. Edward H. J. Wilson, Signal Hill

**Representing**

District 2, SCAG 1st Vice-President  
District 26, SCAG President  
(Via Teleconference)  
OCCOG (Via Teleconference)  
District 18  
Gateway Cities

**Members Not Present**

Hon. Glenn Duncan, Chino  
Hon. Cheryl Viegas-Walker, El Centro

District 10  
District 1

**Other Members in Attendance**

Hon. Pam O'Connor  
District 41, Imm. Past President

---

Audit Committee  
of the  
Southern California Association of Governments

May 15, 2012

*Minutes*

---

**CALL TO ORDER**

Hon. Greg Pettis, Chair, called the meeting to order at 10:35 a.m.

**PUBLIC COMMENT PERIOD**

None.

**REVIEW and PRIORITIZE AGENDA ITEMS**

None.

**CONSENT CALENDAR**

**Approval Items**

1. Minutes of February 25, 2012 Meeting

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

**INFORMATION ITEMS**

2. FY 2011/12 External Financial Audit

Basil Panas, Accounting Manager, introduced Ms. Peggy McBride of Vasquez & Company LLP. Ms. McBride presented SCAG's annual audit planning summary for the FY 2011/12 external financial audit. For the 2012 audit, IDEA® software, automatic data analysis software designed to detect misstatements and unusual fluctuations in programs, will be used.

The planned audit approach and focus areas include but are not limited to:

- *Audit Planning*: Perform risk assessment and preliminary analytical review;
- *Internal Control Evaluation and Testing*: Identify internal control strengths and weaknesses. Test controls over financial reporting and administration of federal funds;
- *Substantive Testing*: Plan and perform substantive audit procedures and substantive compliance audit tests of federal programs, which include a review of federal pass-through grants that are identified through the major program compliance test;
- *Completion*: Draft audit report, evaluate the financial statements and disclosures; present draft audit report to the Audit Committee.

The audit timeline begins with the entrance presentation to the Audit Committee at the May 15, 2012 meeting and concludes with its final report to the Audit

---

Audit Committee  
of the  
Southern California Association of Governments

May 15, 2012

*Minutes*

---

Committee in November 2012. A complete description of the audit plan summary and audit timeline was included in the presentation.

In reference to Vasquez & Company's independence as it relates to relationships with SCAG, Hon. Edward Wilson, (for full disclosure) stated that he and Vasquez and Company do have a mutual client.

3. Internal Audit Status Report

Richard Howard, Internal Auditor, provided a brief summary of the Internal Audits that are currently in progress, including a revision of SCAG's Travel Policy and the review of Federal Transportation Planning Grants. The FY 2012/13 internal audit workplan was included in the audit agenda packet. In addition, Mr. Howard noted that with the recommendation from SCAG's external auditors, Vasquez and Company LLP, regarding SCAG's IT independent security function, that role has now been assumed by IT management with a dotted-line relationship to the internal audit department.

Hon. Phil Luebben inquired as to the type of associations and memberships that Richard Howard, SCAG's internal auditor was associated. Mr. Howard stated that although he was not a member of the American Institute of Certified Public Accountants (AICPA), he is a member of the Institute of Internal Auditors (IIA), and several other professional organizations, including the California Society of CPAs (CalCPA). Mr. Luebben noted that there have been significant improvements to the internal auditor's processes, and asked if the auditing processes have been reviewed by a professional audit peer review team. Mr. Luebben suggested a limited peer review of SCAG's internal auditor's auditing practices and internal functions. Staff agreed to research a peer review program and report back to the committee with its findings.

4. IT Steering Committee Report

Debbie Dillon, Deputy Executive Director, reported that at the February 29, 2012 Audit Committee meeting, staff was asked to provide a copy of the minutes of the Information Technology (IT) Steering Committee as a monitoring tool of the IT audit findings. The minutes reflect the IT audit findings, recommendations and action items to be implemented by December 31, 2012. In addition, it was noted that the next IT Steering Committee will meet on May 31, 2012.

There were no additional comments from the committee.

5. Risk Management Action Plan Report

Basil Panas, Accounting Manager provided a second update on the progress of the remaining action items recommended in the Risk Management Evaluation report.

Mr. Panas reported that of the (15) actions identified to reduce future losses, a total of six (6) recommendations have been completed. All remaining recommendations will be completed by June 30, 2012; with one exception:

---

Audit Committee  
of the  
Southern California Association of Governments

May 15, 2012

*Minutes*

---

- Action item no. 10-02: Develop or revise the formal records retention policy to include retention of electronic data and media, to be completed by December 31, 2012.

Accordingly, the in-house Risk Management committee is closely monitoring the progress being made.

There were no additional comments from the committee.

6. IT Audit Letter Update

Catherine Chavez, Acting Chief Information Officer, provide an update on the Information Technology Audit recommendations which were presented by SCAG's external auditors, Vasquez and Company LLP, at the February 20, 2012 Audit Committee meeting.

Ms. Chavez provided a status update on the following internal controls observations concerning information technology. (The full report was included in the May 15, 2012 Audit agenda packet):

- Long-term Strategic Planning for Information Technology (IT): An update to the IT Strategic Plan is in progress. Survey materials which include staff input from department interviews are in process. Staff will update the IT Strategic Plan by September 30, 2012.
- IT Capacity Planning: Formalized capacity reports are needed to ensure regular capacity performance on SCAG's computer systems. SCAG's new IT service provider, Allied Digital Services LLC (ADSL), has completed the first phase of automated processes 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.
- Information Security Independence: An independent security function which reports to a party outside of IT operations was recommended. The Senior Management Analyst has been assigned information security oversight duties with dotted line reporting to SCAG's Internal Auditor. SCAG will be offering training in IT security. The effectiveness of this new change will be monitored and reviewed by the IT Steering Committee.
- Security Violation Reporting: Recommendation was 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, has

---

Audit Committee  
of the  
Southern California Association of Governments

May 15, 2012

*Minutes*

---

identified SCAG's Internet-facing devices and is on track for adding these devices to its monitoring and alerting systems. Testing will be performed in May 2012, and is expected to be fully functional by August 2012.

- *Application System Parameters*  
Documentation for MS Dynamics accounting application systems parameters which include audit logging and password management was recommended. SCAG and ADSL will review and implement new password policies for the MS Dynamics system to match the Active Directory (AD) password policy by July 31, 2012.
- *Periodic Certification of User Profiles in Systems*  
Formalized documentation from departmental managers certifying their employees' access levels to key systems was recommended.

SCAG's Senior Management Analyst has created the first Dynamics GP user access review for review by the managers of accounting and Human Resources. Responses are to be completed by May 31, 2012. A full GP access review will be completed with ADSL, date to be determined.

- *Business Contingency Planning:*  
An organization-wide Business Recovery Plan was recommended. SCAG has signed a contract with Switchnap, a colocation facility in Las Vegas, Nevada. This contract will create a primary data center in Las Vegas and a secondary failover site at SCAG's Los Angeles offices. In the event that the Los Angeles servers were shut down by disaster, SCAG's server and data in the primary data center in Las Vegas would be accessible through any Internet connection using staff laptops or home computers.

The transition plan for moving all IT related services and equipment will be completed in phases. The first phase began in March 2012.

Staff will begin the process of developing a companion business contingency plan. This plan will outline roles and responsibilities and contain written processes for staff communications. An internal evaluation of available staff resources to accomplish these projects will be completed by July 31, 2012. All plan updates are scheduled for completion by December 31, 2012.

- *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

---

Audit Committee  
of the  
Southern California Association of Governments

May 15, 2012

*Minutes*

---

the data servers and other network equipment. In May 2012, SCAG obtained Board approval to enter into a contract with Switch Communications for a colocation site called Switchnap in Las Vegas, Nevada. The facility provides comprehensive environmental controls, including humidity control and redundancy of cooling and power systems. Relocation is scheduled for July 2012.

- *Secure Server Build Standard*  
A formally documented and management approved methodology for configuring all Window servers was recommended. SCAG's new IT managed services vendor, ADSL, will prepare a written, secure server build standard by July 31, 2012.

**STAFF REPORT**

None.

**FUTURE AGENDA ITEMS**

1. Limited Peer Review Report of the Internal Auditor's auditing processes.

**ANNOUNCEMENTS**

None.

**ADJOURNMENT**

Hon. Greg Pettis, Chair, adjourned the meeting at 11:30 a.m. The next meeting of the Audit Committee will be scheduled at a later date.

**Minutes Approved by:**

Basil Panas, Acting Chief Financial Officer  
Staff to the Audit Committee

# REPORT

---

**DATE:** June 26, 2012

**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

---

**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, one (1) preaward audit of a contract proposal over \$250,000 was completed and another one (1) has been started. A sample of subconsultants is being contacted to determine if they are being paid on a timely basis by the primary consultant. The Committee will recall that several subconsultants in the past have complained that they were not being paid according to the prime contract terms.

**FISCAL IMPACT:**

None.

**ATTACHMENT:**

None.

This Page Intentionally Left Blank

# REPORT

---

**DATE:** June 26, 2012  
**TO:** Audit Committee  
**FROM:** Basil Panas, Acting CFO, 213-236-1817, panas@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 aimed at reducing future losses. Attached is a summary of the progress made in executing the action items. Eleven items have been completed. All remaining items will be completed by December 31, 2012 or sooner.

**FISCAL IMPACT:**  
None.

**ATTACHMENT:**  
LossCAP Action Plan

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

**IMPORTANT PRIORITY**

<b>RME No.</b>	<b>TYPE</b>	<b>ACTION ITEM</b>	<b>STATUS</b>
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**

<b>RME No.</b>	<b>TYPE</b>	<b>ACTION ITEM</b>	<b>STATUS</b>
06-03	Concurrent	Develop & implement a centralized safety manual	Completed
06-10	Concurrent	Establish a Transitional Return to Work Policy	Draft is under review; completion date is Sep. 30, 2012.
10-03	New	Develop & implement a Repetitive Motion Injury Control Program	Draft is in progress; completion date is Sep. 30, 2012.
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; completion date is Sep. 30, 2012.
10-09	New	Report the number of agency volunteers to the CalJPIA	

# REPORT

---

**DATE:** June 26, 2012

**TO:** Audit Committee

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

**SUBJECT:** Peer Review of SCAG's Internal Audit Function

---

## **RECOMMENDED ACTION:**

Staff recommends that the Audit Committee recommend that the Regional Council adopt the Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States.

## **EXECUTIVE SUMMARY:**

*At the last Audit Committee meeting the Audit Committee requested staff to research having a Peer Review of the Internal Audit function. The Comptroller General of the United States issues Government Auditing Standards. Please see <http://www.gao.gov/yellowbook>.*

*SCAG's Internal Audit function follows the Government Auditing Standards. These Standards are also known as the "Yellow Book". The Standards are commonly referred to as Generally Accepted Government Auditing Standards (GAGAS). They are for use by auditors of government entities and entities that receive government awards and audit organizations performing GAGAS audits.*

*Entities that perform peer reviews measure the audit organizations' compliance with the professional standards such as GAGAS or standards that apply to private companies or other non-government entities. Therefore, SCAG should adopt GAGAS, which are the standards that SCAG should be measured against.*

## **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 the Audit Committee requested staff to research having a Peer Review of the Internal Audit function. Several organizations perform Peer Reviews, including the American Institute of Certified Public Accountants (AICPA), the Institute of Internal Auditors (IIA), the American Public Transportation Association (APTA) and the Association of Local Government Auditors (ALGA).

As noted above, SCAG's Internal Audit function follows GAGAS, or the Yellow Book standards. Of the reviewing organizations noted above, ALGA is the only one that reviews compliance strictly with GAGAS. The AICPA, IIA and APTA do not review for adherence to Yellow Book standards.

ALGA is a national association made up of city, county and other local auditors throughout the country. Their stated goal is to improve the quality of auditing in local government. ALGA also has performed recent Peer Reviews of the Los Angeles County Metropolitan Transportation Authority (MTA) audit functions. Please see ALGA's website at [www.governmentauditors.org](http://www.governmentauditors.org).

# REPORT

---

ALGA issues a Peer Review Guide for audit organizations to perform self-assessment reviews. ALGA requires all audit organizations to do this self-assessment before having a peer review. ALGA recommends that the self-assessment and a review of quality control audit policies and procedures be completed before starting a peer review. The self-assessment and review usually take up to one year, according to members of ALGA's Peer Review Committee.

ALGA recommends that organizations formally adopt the Generally Accepted Government Auditing Standards (GAGAS). If the Committee believes that ALGA would be best suited to performing SCAG's peer review, adoption of GAGAS would be in order. This would allow the one-year period of self-assessment and review to commence. Therefore, staff recommends that the Audit Committee recommend that the Regional Council adopt GAGAS.

**FISCAL IMPACT:**

Funds for the Peer Review would be provided in the Fiscal Year 2014 Budget.

**ATTACHMENT:**

None.

# REPORT

---

**DATE:** June 26, 2012  
**TO:** Audit Committee  
**FROM:** Basil Panas, Acting CFO, 213-236-1817, panas@scag.ca.gov  
**SUBJECT:** Audit Committee Meeting Schedule

---

**RECOMMENDED ACTION:**

Adopt the proposed meeting schedule.

**EXECUTIVE SUMMARY:**

*The Committee shall determine when it will meet.*

**STRATEGIC PLAN:**

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

**BACKGROUND:**

The Audit Committee will interact with:

- (a) Vasquez & Company LLP, SCAG's outside independent auditors
- (b) Richard Howard, SCAG's Internal Auditor

Thus, staff is proposing the following meeting schedule for FY 2012/13:

- Oct. 2012:** Internal Audit report update  
Preliminary external audit reports
- Nov. 2012:** Final external audit reports covering prior fiscal year.
- May 2013:** Planning meeting with internal auditor for upcoming fiscal year and with the external auditors, Vasquez & Company LLP for the current fiscal year audit.

**FISCAL IMPACT:**

None.

**ATTACHMENT:**

None.