



SOUTHERN CALIFORNIA
ASSOCIATION OF GOVERNMENTS
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REMOTE PARTICIPATION ONLY

AUDIT COMMITTEE

Wednesday, February 23, 2022
10:30 a.m. – 12:00 p.m.

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

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

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

PUBLIC ADVISORY

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

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

SCAG, in accordance with the Americans with Disabilities Act (ADA), will accommodate persons who require a modification of accommodation in order to participate in this meeting. SCAG is also committed to helping people with limited proficiency in the English language access the agency's essential public information and services. You can request such assistance by calling (213) 630-1420. We request at least 72 hours (three days) notice to provide reasonable accommodations and will make every effort to arrange for assistance as soon as possible.



Instructions for Public Comments

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

1. **In Writing:** Submit written comments via email to: ePublicComment@scag.ca.gov by **5pm on Tuesday, February 22, 2022**. You are **not** required to submit public comments in writing or in advance of the meeting; this option is offered as a convenience should you desire not to provide comments in real time as described below.

All written comments received after 5pm on Tuesday, February 22, 2022 will be announced and included as part of the official record of the meeting.

2. **In Real Time:** If participating in real time via Zoom or phone, during the Public Comment Period (Matters Not on the Agenda) or at the time the item on the agenda for which you wish to speak is called, use the “raise hand” function on your computer or *9 by phone and wait for SCAG staff to announce your name/phone number. SCAG staff will unmute your line when it is your turn to speak. Limit oral comments to 3 minutes, or as otherwise directed by the presiding officer. For purpose of providing public comment for items listed on the Consent Calendar, please indicate that you wish to speak when the Consent Calendar is called; items listed on the Consent Calendar will be acted on with one motion and there will be no separate discussion of these items unless a member of the legislative body so requests, in which event, the item will be considered separately.

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

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

OUR MISSION

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

OUR VISION

Southern California’s Catalyst for a Brighter Future

OUR CORE VALUES

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



Instructions for Participating in the Meeting

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

To Participate and Provide Verbal Comments on Your Computer

1. Click the following link: <https://scag.zoom.us/j/316673359>
2. If Zoom is not already installed on your computer, click “Download & Run Zoom” on the launch page and press “Run” when prompted by your browser. If Zoom has previously been installed on your computer, please allow a few moments for the application to launch automatically.
3. Select “Join Audio via Computer.”
4. The virtual conference room will open. If you receive a message reading, “Please wait for the host to start this meeting,” simply remain in the room until the meeting begins.
5. During the Public Comment Period (Matters Not on the Agenda) or at the time the item on the agenda for which you wish to speak is called (see note above regarding items on the Consent Calendar), use the “raise hand” function located in the participants’ window and wait for SCAG staff to announce your name. SCAG staff will unmute your line when it is your turn to speak. Each speaker is limited to oral comments totaling 3 minutes for all matters, or as otherwise directed by the presiding officer.

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1. Call **(669) 900-6833** to access the conference room. Given high call volumes recently experienced by Zoom, please continue dialing until you connect successfully.
2. Enter the **Meeting ID: 316 673 359**, followed by #.
3. Indicate that you are a participant by pressing # to continue.
4. You will hear audio of the meeting in progress. Remain on the line if the meeting has not yet started.
5. During the Public Comment Period (Matters Not on the Agenda) or at the time the item on the agenda for which you wish to speak is called (see note above regarding items on the Consent Calendar), press *9 to add yourself to the queue and wait for SCAG staff to announce your name/phone number. SCAG staff will unmute your line when it is your turn to speak. Each speaker is limited to oral comments totaling 3 minutes for all matters, or as otherwise directed by the presiding officer.

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AC - Audit Committee **Members – February 2022**

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

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AUDIT COMMITTEE AGENDA

Southern California Association of Governments
Remote Participation Only
Wednesday, February 23, 2022
10:30 AM

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

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

PUBLIC COMMENT PERIOD (Matters Not on the Agenda)

This is the time for persons to comment on any matter pertinent to SCAG's jurisdiction that is *not* listed on the agenda. Although the committee may briefly respond to statements or questions, under state law, matters presented under this item cannot be discussed or acted upon at this time. Public comment for items listed on the agenda will be taken separately as further described below.

General information for all public comments: Members of the public are encouraged, but not required, to submit written comments by sending an email to: ePublicComment@scag.ca.gov by 5pm on Tuesday, February 22, 2022. Such comments will be transmitted to members of the legislative body and posted on SCAG's website prior to the meeting. Any writings or documents provided to a majority of the Audit Committee regarding any item on this agenda (other than writings legally exempt from public disclosure) are available at the Office of the Clerk, located at 900 Wilshire Blvd., Suite 1700, Los Angeles, CA 90017 during normal business hours and/or by contacting the office by phone, (213) 630-1420, or email to aguilarm@scag.ca.gov. Written comments received after 5pm on Tuesday, February 22, 2022, will be announced and included as part of the official record of the meeting. Members of the public wishing to verbally address the Audit Committee in real time during the meeting will be allowed up to a total of 3 minutes to speak on items on the agenda, with the presiding officer retaining discretion to adjust time limits as necessary to ensure efficient and orderly conduct of the meeting. The presiding officer has the discretion to equally reduce the time limit of all speakers based upon the number of comments received. If you desire to speak on an item listed on the agenda, please wait for the chair to call the item and then indicate your interest in offering public comment by either using the "raise hand" function on your computer or pressing *9 on your telephone. For purpose of providing public comment for items listed on the Consent Calendar (if there is a Consent Calendar), please indicate that you wish to speak when the Consent Calendar is called; items listed on the Consent Calendar will be acted upon with one motion and there will be no separate discussion of these items unless a member of the legislative body so requests, in which event, the item will be considered separately.



REVIEW AND PRIORITIZE AGENDA ITEMS

ACTION ITEM

1. Selection of Vice Chair

CONSENT CALENDAR

Approval Item

2. Minutes of the Meeting – October 20, 2021

INFORMATION ITEMS

3. Fiscal Year 2020-21 External Audit by Eide Bailly LLP
(David James, Internal Auditor) 30 Mins.
4. Project Management Process Improvement Update
(Debbie Dillon, Chief Strategy Officer) 15 Mins.
5. Finance Status Report
(Cindy Giraldo, Chief Financial Officer) 10 Mins.
6. Understanding Cyber Security
(Julie Shroyer, Chief Information Officer) 15 Mins.
7. Internal Audit Status Report
(David James, Internal Auditor) 20 Mins.

FUTURE AGENDA ITEMS

ANNOUNCEMENTS

ADJOURNMENT



Southern California Association of Governments
Remote Participation Only
February 23, 2022

AUDIT (AC) COMMITTEE
MINUTES OF THE MEETING
WEDNESDAY, OCTOBER 20, 2021

THE FOLLOWING MINUTES ARE A SUMMARY OF ACTIONS TAKEN BY THE AUDIT COMMITTEE (AC). A VIDEO AND AUDIO RECORDING OF THE FULL MEETING IS AVAILABLE AT: <http://scag.iqm2.com/Citizens/>.

The Audit Committee (AC) of the Southern California Association of Governments (SCAG) held its regular meeting virtually (telephonically and electronically), given the declared state of emergency (pursuant to State of Emergency Proclamation dated March 4, 2020) and local public health directives imposing and recommending social distancing measures due to the threat of COVID-19, and pursuant to Government Code Section 54953(e)(1)(A). A quorum was present.

Members Present:

Sup. Carmen Ramirez, Chair		Ventura County
Hon. Cheryl Viegas-Walker	<i>El Centro</i>	District 1
Hon. Alan D. Wapner	<i>Ontario</i>	SBCTA

Members Not Present

Hon. Ben Benoit		Air District
Hon. Marty Simonoff	<i>Brea</i>	District 22
Hon. Edward Wilson	<i>Signal Hill</i>	GCCOG

CALL TO ORDER AND PLEDGE OF ALLEGIANCE

The Honorable Carmen Ramirez called the meeting to order at 10:30 a.m., and asked Alan Wapner, City of Ontario, SBCTA, to lead the Pledge of Allegiance. The Clerk confirmed a quorum was present.

PUBLIC COMMENT PERIOD

Chair Ramirez provided detailed instructions on the updated public comment protocols and gave instructions for participating in today’s meeting. She asked Ruben Duran, Legal Counsel, to provide a brief statement regarding AB 361 and the basis for holding teleconference meetings.

Chair Ramirez opened the public comment period and noted that today's meeting is being held pursuant to recent Brown Act amendments relating to telephonic/videoconference meetings and process as previously described. She noted the total time for all public comments related to items on the agenda and any other matter within the agency's subject matter jurisdiction is a minimum of five (5) minutes and the public comment period will be held open for at least 5 minutes to afford the public the ability to comment on all items on this agenda.

Chair Ramirez thanked everyone for participating remotely and asked anyone on their computers to speak by using the "raise hand" function on the computer and/or wait for SCAG staff to announce their name or phone number. Additionally, she noted that public comments received via email to ePublicComment@scag.ca.gov after 5pm on October 19, 2021, would be announced and included as part of the official record of the meeting.

The Clerk acknowledge there were no public comments received by email before or after the deadline. The Clerk announced that five minutes had elapsed.

Seeing no public comment speakers, Chair Ramirez closed the Public Comment period.

REVIEW AND PRIORITIZE AGENDA ITEM

There were no reprioritizations made.

CONSENT CALENDAR

Approval Item

1. Minutes of the April 28, 2021 Meeting

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

FOR: Ramirez, Viegas-Walker and Wapner (3).

AGAINST: None (0).

ABSTAIN: None (0).

INFORMATION ITEMS

2. Introduction of New Internal Auditor

Darin Chidsey, Chief Operating Officer, provided a brief update on the new smaller Audit Committee composition and thanked everyone for their participation. Mr. Chidsey introduced SCAG's new internal auditor, Mr. David James, and asked Mr. James to provide a brief introduction.

3. Project Management Process Improvement Update

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

- The under-recovery of indirect cost in the amount of \$598,332 was resolved with Caltrans. SCAG will be submitting this amount for formal Caltrans approval and working with the FTA, SCAG's new "cognizant agency," to amend the indirect cost recovery rates.
- Julie Shroyer, SCAG's Chief Information Officer, will be leading in the next phase of the Enterprise Project Management Office (EPMO) implementation.
- The EPMO established a new committee focused on additional improvements to the procurement process. Some of the improvements include revisions to the pre-award/contracts process, labor charging practices updates and training, and improved processes and requirements for contracting with non-profits.
- SCAG continues to move away from Cost-Plus-Fixed Fee contracts and toward Lump Sum contract formats. This payment structure requires less administration and resources.

Ms. Dillon noted that additional details are provided in the CFO's Finance Status Report which is part of today's agenda packet. Ms. Dillon concluded her presentation and noted that staff would continue to provide progress updates to the Committee.

Ms. Dillon responded to comments and questions expressed by the Councilmembers, including questions regarding any expectations that Caltrans Auditors would schedule another visit to SCAG. Additionally, Kome Ajise, Executive Director, noted that a visit from the auditors may happen within the next 18 months to close out the current audit. Mr. Ajise stated that the EMPO was created as part of best practices for project management and is excited for Julie Shroyer to lead in that effort.

4. Internal Audit Status Report

David James, Internal Auditor, presented the Internal Audit Status Report, which lists work performed since the last Committee meeting. Mr. James provided highlights of the significant progress underway in the following key areas. He noted:

- A review of the Audit Committee Charter was completed; it was determined that an update is not required at this time.
- An organization-wide risk assessment is underway to understand in depth SCAG's organizational risks and operations, including evaluations of the effectiveness and efficiency of various departments.
- The Internal Auditor is now managing the Ethics Hotline. Mr. James provided a brief description of the processes and procedures of the ethics hotline, which is administered through Lighthouse Services, a third-party vendor.

Staff responded to comments and questions expressed by the Councilmembers, including questions regarding the ethics hotline communication procedures for SCAG's newest staff members. Darin Chidsey, Chief Operating Officer, provided details on how SCAG staff is informed of the Ethics Hotline policies and procedures. He noted that staff is sent an Employee Acknowledgment of SCAG Ethics policy form annually which outlines the procedures regarding SCAG's Ethics and Compliance Hotline.

5. Finance Status Report

Cindy Giraldo, Chief Financial Officer, presented the Finance Status report. Ms. Giraldo provided a summary of the significant progress made in several key areas. Some of the highlights reported were:

- Staffing Management Update; Tom Philip, Accounting Manager left SCAG to pursue other opportunities. Ms. Erika Bustamante is now the interim Accounting Manager, and Ms. Kana Sato-Nguyen is now the Acting Budget & Grants Manager. A full recruitment for a permanent replacement, with a new title of Controller, is underway.
- Eide Bailly commenced the FY 2020-21 audit; no issues have been reported and they are on target to bring the Comprehensive Annual Financial Report to the EAC/RC in December 2021.
- SCAG was victim to internet email fraud leading to unrecovered losses of \$22,538. Internal discovery was completed, revised procedures were implemented, and staff has reported the

matter to the Los Angeles Police Department (LAPD) and to the Federal Bureau of Investigation (FBI) for investigation and will continue to cooperate with law enforcement.

- The responsibility of completing pre-award reviews has been transitioned to the Contract Administrators within the Contracts department. Since our last Audit Committee meeting, an additional \$1.4 million of savings have been achieved through this negotiation process.
- The Labor Budgeting, Labor Monitoring & Labor Charging Policy & Procedures is now complete, which will ensure correct hours and time is reported accurately and honestly. Successful training with staff was conducted. Training materials and a copy of the policy is available to employees on SCAGHub.

Staff responded to comments and questions expressed by the Councilmembers, including questions regarding the policies and procedures in accounting and if SCAG can serve as a resource to other planning organizations by sharing their learned experience brought on by the fraudulent activity, as well as sharing the process improvements implemented.

Additionally, Hon. Cheryl Viegas-Walker requested staff to send SCAG's learned experience and recommendations to her so she can share it with other organizations, including the League of California Cities.

ANNOUNCEMENTS

There were no announcements made.

FUTURE AGENDA ITEMS

A report on current trends with Cyber Security.

ADJOURNMENT

There being no further business, Chair Ramirez adjourned the Audit Committee meeting at 11:25 a.m.

Respectfully submitted by:
Carmen Summers
Audit Committee Clerk

[MINUTES ARE UNOFFICIAL UNTIL APPROVED BY THE AUDIT COMMITTEE]

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AGENDA ITEM 3
REPORT

Southern California Association of Governments
Remote Participation Only
February 23, 2022

To: Audit Committee (AC)

**EXECUTIVE DIRECTOR'S
APPROVAL**

From: David James, Internal Auditor
(213) 630-1483, djames@scag.ca.gov

Kome Ajise

Subject: Fiscal Year 2020-2021 External Financial Audit

RECOMMENDED ACTION:

Information Only – No Action Required

STRATEGIC PLAN:

This item supports the following Strategic Plan Goal 7: Secure funding to support agency priorities to effectively and efficiently deliver work products.

EXECUTIVE SUMMARY:

Eide Bailly presents the results of their Fiscal Year 2020-2021 financial audit of SCAG.

BACKGROUND:

SCAG's external auditors, Eide Bailly, have completed their annual audit of SCAG's Fiscal Year 2021 financial statements.

FISCAL IMPACT:

None

ATTACHMENT(S):

1. PowerPoint Presentation - SCAG Audit Exit Presentation 2021



SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS

Communication With Those Charged With Governance



AUDIT SERVICES

- Audit of the Comprehensive Annual Financial Report (CAFR)
- Report on internal control over financial reporting and on compliance in accordance with *Government Auditing Standards*
- Audit report on compliance over major federal programs, schedule of expenditures of federal awards and internal control in accordance with 2 CFR 200 (Single Audit)

OUR RESPONSIBILITY IN ACCORDANCE WITH PROFESSIONAL STANDARDS

- Form and express an opinion about whether the financial statements which are the responsibility of management, with your oversight are presented fairly, in all material respects, in accordance with U.S. GAAP.
- Express an opinion as to whether SCAG complied with direct and material compliance requirements described in the OMB Compliance Supplement for major federal programs.
- Our responsibility is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.
- We considered internal control over financial reporting and over direct and material compliance requirements for major federal programs. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

2

SUMMARY OF AUDIT RESULTS

Financial Statements	<ul style="list-style-type: none">• Unmodified opinion on the CAFR
Government Auditing Standards	<ul style="list-style-type: none">• No material weaknesses reported• No instances of noncompliance reported
Single Audit	<ul style="list-style-type: none">• Major Programs<ul style="list-style-type: none">• 20.505: Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research• 20.514: Public Transportation Research, Technical Assistance, and Training• 20.600: Highway Safety Cluster• Unmodified opinion on compliance• No material weaknesses reported

AUDITOR COMMUNICATIONS

Ethics and Independence

- We have complied with all relevant ethical requirements regarding independence.

Significant Accounting Policies

- Summarized in Note 1 to the financial statements

Significant Estimates

- Net Pension Liability
- Net Other Postemployment Benefits (OPEB) Liability

Sensitive Disclosures

- Pensions and OPEB (Notes 12 and 14, respectively)

5

AUDITOR COMMUNICATIONS

Misstatements

- No uncorrected or corrected misstatements were reported.

Consultations with Other Accountants

- Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Significant Difficulties

- We encountered no significant difficulties in dealing with management.

Disagreements with Management

- No disagreements arose during the course of the audit.

THANK YOU

Roger Alfaro
Partner
ralfaro@eidebailly.com
909.466.4410



CPAs & BUSINESS ADVISORS

This presentation is presented with the understanding that the information contained does not constitute legal, accounting or other professional advice. It is not intended to be responsive to any individual situation or concerns, as the contents of this presentation are intended for general information purposes only. Viewers are urged not to act upon the information contained in this presentation without first consulting competent legal, accounting or other professional advice regarding implications of a particular factual situation. Questions and additional information can be submitted to your Eide Bailly representative, or to the presenter of this session.



AGENDA ITEM 4
REPORT

Southern California Association of Governments
Remote Participation Only
February 23, 2022

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

**EXECUTIVE DIRECTOR'S
APPROVAL**

RECOMMENDED ACTION:
Information Only - No Action Required

STRATEGIC PLAN:
This item supports the following Strategic Plan Goal 7: Secure funding to support agency priorities to effectively and efficiently deliver work products.

EXECUTIVE SUMMARY:
At the October 20, 2021 meeting, staff provided an update regarding the California Department of Transportation (Caltrans) Corrective Action Plans, Continuing Process Improvement and the Enterprise Project Management Office. This report provides a status update on those items and other agency efforts underway to support continuous improvement for project management and related processes, policies, and procedures.

- BACKGROUND:**
- A. Corrective Action Plans - Closed**
As part of the FY22 Budget Amendment 2, SCAG amended its Indirect Cost Budget to include the under-recovery of indirect costs in the amount of \$598,332, which was the only outstanding item from the Caltrans Audit. The amended FY22 Indirect Cost Rate Proposal (ICRP) was submitted to the Federal Transit Administration (FTA), SCAG's new Cognizant Agency, for review and approval in January 2022. The FTA has contracted with TFC Consulting, Inc. to review SCAG's indirect cost rate proposal prior to approval. The kick-off meeting between SCAG and TFC is scheduled for February 17, 2022.

 - B. Enterprise Project Management Office (EPMO) and Continuing Process Improvement**
Building on work to develop better project management practices and procedures throughout the agency previously reported on at these meetings, SCAG's Chief Information Officer, Julie Shroyer, began leading SCAG into the next phase of EPMO implementation. Julie began reporting to EPMO Executive Sponsors, Executive Director, Kome Ajise, Chief

Operating Officer, Darin Chidsey and Chief Strategy Officer, Debbie Dillon in the second half of 2021. Significant milestones to date include:

1. Monthly meetings with Executive Sponsors
2. November 1, 2021 – Launched a strong cross divisional steering committee and hosted a decision-making workshop with Executive Team facilitated by Industry leader Gartner on November 1st. The workshop facilitated definition and prioritization of services to be offered by the EPMO and a phased approach to deliver the greatest outcomes for the agency in the near and long term.
3. Steering Committee continues to meet bi-weekly to develop final scope and charter for the EPMO office. Small workgroup also finalizing set of required skills for an EPMO Lead to add capacity for building project governance, reporting, and standardization across the agency.
4. Gartner resources to return in March 2022 to provide additional best practices about consolidating and standardizing project intake and reporting processes from an 'enterprise' perspective.
5. Initially created in November of 2019, the 2-part project management training has been updated and mandated for all staff. The first part of the project management training, which covers project management principles, organizational goals, project initiation, and the budget process, took place on February 8th. The second part of the training, which covers the procurement process, contract administration, and invoicing was offered on February 22nd. The training sessions were well received, and steps are being taken to elicit feedback from staff on ways the training materials may be further improved.

As previously reported, the CFO and Manager of Contracts continue to serve on a stakeholder review group that assists the Caltrans Local Assistance Program with future updates to its Local Assistance Procedures Manual which is a resource for SCAG in administering the projects funded through Caltrans. By becoming members of this group, SCAG has had the opportunity to provide comments/feedback prior to the adoption of future updates. Thus giving SCAG a voice in the formation of policies and procedures that directly impact our ability to serve our stakeholders.

Additionally, SCAG continues to move away from Cost-Plus-Fixed Fee contracts and toward Lump Sum format, when appropriate. Of the 17 active procurements at February 10, 2022, ten (10) or 58.82%, were structured as Lump Sum contracts with milestone or progress payments. That payment structure requires less administration and is more attractive to potential bidders as long as



the scope of work in the Request for Proposals is drafted with enough specificity. Contracts is working with Project Managers to develop each new scope of work to that level to maximize the number of Lump Sum contracts.

FISCAL IMPACT:

None



AGENDA ITEM 5
REPORT

Southern California Association of Governments
Remote Participation Only
February 23, 2022

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

**EXECUTIVE DIRECTOR'S
APPROVAL**

RECOMMENDED ACTION:

Information Only – No Action Required

STRATEGIC PLAN:

This item supports the following Strategic Plan Goal 7: Secure funding to support agency priorities to effectively and efficiently deliver work products.

EXECUTIVE SUMMARY:

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

- *SCAG’s external independent auditors, Eide Bailly, LLP, has completed their audit of SCAG’s FY 2020-21 financial statements. They will present the results at today’s Audit Committee.*
- *An external recruitment to fill the Controller position has been completed and the new staff is expected to start by the end of February. In December, Erika Bustamante was appointed to Deputy Director of Finance. After an internal recruitment, Kana Sato-Nguyen was promoted to Budget & Grants Manager after serving as Acting Manager for the last three months.*

BACKGROUND:

A. FY 2020-21 Annual Comprehensive Financial Report (ACFR)

Eide Bailly, LLP has completed their audit of SCAG’s FY 2020-21 financial statements. They will present the results at today’s Audit Committee. Staff remains on target to file for the GFOA Certificate of Achievement for Excellence in Financial Reporting which is due by the end of February.

It is important to note that the new term *annual comprehensive financial report* and its acronym *ACFR* replaces instances of *comprehensive annual financial report* and its acronym *CAFR* in generally accepted accounting principles for state and local governments. This change is the result of

increasing professional awareness that the old acronym, when pronounced aloud, sounds the same as a derogatory term historically used in other parts of the world.

C. Change in Finance Management

An external recruitment to fill the Controller position, formerly Accounting Manager, has been completed and the new staff is expected to start by the end of February. In December, Erika Bustamante was appointed to Deputy Director of Finance, and she will continue to serve as interim Accounting Manager until the new staff is on board. After an internal recruitment in February, Kana Sato-Nguyen was promoted to Budget & Grants Manager after serving as Acting Manager for the last three months.

E. Pre-Award Review Update

As part of SCAG’s procurement policies and procedures, staff completes detailed pre-award reviews on high dollar value consultant contracts. These reviews provide SCAG with a basis to reduce the contract price through negotiations with the winning bidder. With the vacancy (now-filled) of the Internal Auditor position, the opportunity arose to evaluate the pre-award review process. While previously performed by the Internal Auditor, this responsibility has now been transitioned to the Contracts Department and is performed by Contract Administrators. This transition has thus far continued to be successful with continued significant savings being achieved. **Table 1** below shows the success Contract Administrators have achieved through the negotiation process since the last audit committee meeting.

Table 1: High-Value Contract Negotiation Results

Contract #	Firm	Proposed Amount	Final Negotiate Amount	Negotiated Savings
22-022-C01	MailChimp	\$15,120	\$12,852	\$2,268
22-026-C01	R & R Electric	\$55,860	\$1,720	\$54,140
22-030-C01	Logmein	\$148,435	\$111,326	\$37,109
Total:		\$219,415	\$125,898	\$93,517

FISCAL IMPACT:

None

Understanding Cyber Security

An overview of current trends and defense in depth

Julie Shroyer, CIO
SCAG Information Technology
February 2022

www.scag.ca.gov



What is cyber security?



Cyber security
(computer security,
information security, etc.)
is the protection of
networks, computer
systems, services, and
information from attack,
disclosure, or disruption.





86%
of organizations had at least one user try to connect to a phishing site



70%
of organizations had users that were served malicious browser ads



50%
of organizations encountered ransomware-related activity



48%
of organizations found information-stealing malware activity

Cisco. "2021 Cyber security threat trends". Cisco Umbrella E-Book Library. 2021, <https://learn-umbrella.cisco.com/ebook-library/2021-cyber-security-threat-trends-phishing-crypto-top-the-list>.

Types of Cyber Security Threats

Phishing Attacks

Email or fake web sites that lure users to provide personal information or take action based on false information.

Business Email Compromise

A malicious actor compromises legitimate business or personal email accounts through phishing or other means to conduct unauthorized business.

Malware

Programs that infect a computer and execute malicious code to destroy data or allow access to an intruder – virus, worm, trojan horse.

Ransomware

A type of Malware that threatens sensitive data, encrypts files/data, or otherwise interrupts services. Malicious actors demand ransom in exchange for decryption.

Denial of Service

An attack intended to shut down a system or network to make it inaccessible to users. Often target high-profile online services or organizations (banking, government, etc.)

DNS Attack

An attack by a malicious actor on the vulnerabilities of an organization's Domain Name System (DNS).

Web App Attack

Aimed at vulnerabilities in coding or security of a web-based application that are used to gain access to a server or database.

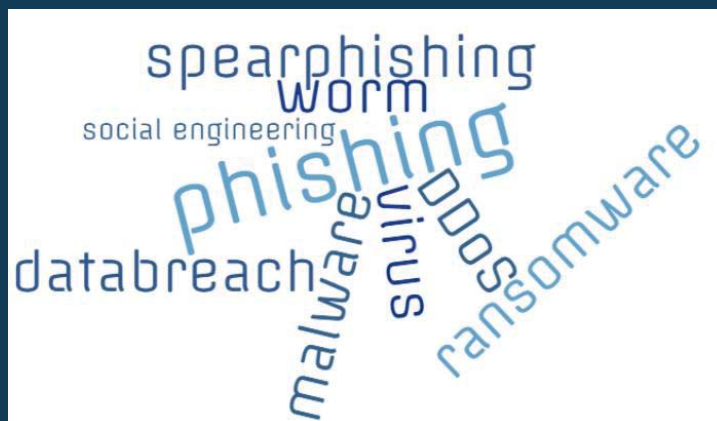
Cryptojacking

The act of hijacking a computer to mine cryptocurrencies through web sites or while the user is unaware.

Information Security is not just a service, software or position

Security is an attitude

Development of awareness, good habits, and a healthy paranoia



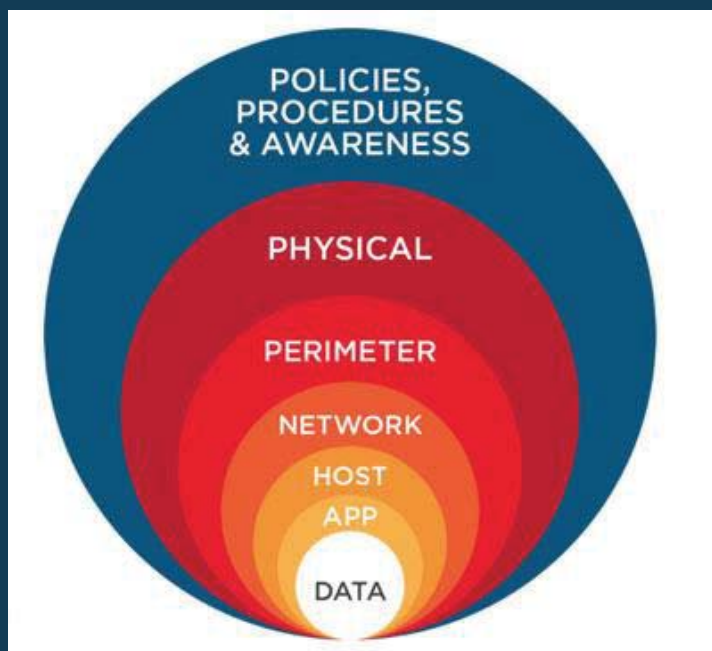
Depth in Defense

Defense in Depth is the concept of leveraging multiple layers of security controls and mechanisms that are thoughtfully and strategically placed to protect the integrity and availability of information systems.

Defense in Depth typically includes Physical controls, Technical controls, and Administrative controls.

Some terms to be familiar with...

- Network Security Controls
- Antivirus Software
- Firewall
- VPN (Virtual Private Network)
- Malware scanners
- Intrusion Detection



Employees are our first and last line of defense in depth

Security Awareness Training for All Staff

By June 2022 all SCAG staff will be required to complete security awareness training

Multi-factor authentication for all Microsoft Office 365 applications and email

Lessen the likelihood that accounts compromised by malicious actors through phishing emails will be successful in using compromised accounts to further phishing efforts

VPN lockdown for user account and devices

VPN access restricted to only staff and block service for other non-human accounts. Malicious actors that attempt to login to our VPN through compromised credentials will be blocked because the device in which they are trying to log in from is not authorized.

Firewall traffic inspection for HTTPS traffic

Firewall configuration in the LA Office provides inspection of web traffic and blocks access or warns users who are attempting to access suspicious web sites or download malicious data

Upgrade Email Security Platform

Intended to reduce the amount of spam and phishing email that reach users; allow greater insight and reporting on email threats, and allow quicker responses to email based threats

Upgrade Antivirus software

Increased protection and insight into emerging threats and upgraded vulnerability scanning

Thank you

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AGENDA ITEM 7
REPORT

Southern California Association of Governments
Remote Participation Only
February 23, 2022

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

**EXECUTIVE DIRECTOR'S
APPROVAL**

Kome Ajise

RECOMMENDED ACTION:

Information Only – No Action Required

STRATEGIC PLAN:

This item supports the following Strategic Plan Goal 7: Secure funding to support agency priorities to effectively and efficiently deliver work products.

EXECUTIVE SUMMARY:

- *The Internal Auditor has completed an organizational risk assessment and recommendations for internal audits to be performed for the remainder of fiscal year 2021-2022*
- *The Internal Auditor is performing an audit of SCAG's procurements.*
- *The SCAG ethics hotline had no reports since the last Audit Committee meeting.*

BACKGROUND:

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

A. Internal Audit Risk Assessment Results and Internal Audits to be Performed

This is a summary of the results and of the organization-wide risk assessment performed by Internal Audit. Attached is a risk matrix which shows potential auditable areas with Internal Audit's assessments of potential risks. The risks are assessed in terms of importance to the mission of SCAG, materiality, likelihood of issues occurring, and other criteria described below.

In the selection of areas to audit for the remainder of Fiscal Year 2022, the current needs of SCAG in light of its goals as expressed by the Strategic Plan and other management goals were considered.

Risk Assessment Process

Internal Audit conducted over 30 interviews with management of all departments at the executive level and throughout SCAG. I asked general questions about each manager's function and responsibilities, goals and obstacles, concerns and ideas for improvement, and areas where they thought Internal Audit could help them achieve their goals.

I also used policies and procedures, departments' internal manuals, external rules such as Caltrans' Local Assistance Procedures Manual, planning documents, financial and audit reports, and other internal operational reports.

Risks are events, actions, or inactions that could cause key organizational objectives to not be achieved. To mitigate and manage these risks, SCAG's management implements internal controls, plans for disruptions, develops risk management programs, and engages in risk mitigation. Internal Audit's responsibility is to facilitate management's identification and assessment of risks, and to monitor and report on how well risks are managed.

Summary of Risk Assessment Interviews Results

Common themes that SCAG managers discussed were the recent rapid growth of SCAG, with new funding sources such as for Regional Early Action Planning (REAP) and new initiatives at SCAG. Managers want to improve their business practices to meet growth, to improve the efficiency of operations, and to use most effectively grant funds. Management also wants Internal Audit to help provide assurance on compliance with laws and grant terms.

Managers indicated many areas where they believe strong internal controls are in place and work processes are well established. SCAG has many key processes that are documented: there are manuals with detailed processes for accounting, contracts, procurement, and human resources.

Managers also discussed factors of higher risks at SCAG with increasing departmental budgets and responsibilities, changes in staff responsibilities, new processes, changes in processes and types of grants. SCAG is increasing the quantity of employees to meet the increased workloads and has reorganized some key departments/divisions such as Planning. With organizational change comes new risks and opportunities, and Internal Audit should play a role in helping SCAG to address these.

Risk Assessment Methodology and Risk Matrix

Internal Audit established the structure of the risk assessment by identifying key programs, projects, and processes (auditable areas). The attached spreadsheet with a risk matrix shows the

universe of potential areas to audit. In the attached risk matrix, I applied the following categories of risk to each auditable area:

- Materiality / Financial Impact / Compliance – The magnitude of financial exposure, the degree of regulatory oversight, possible financial penalties.
- Strategic / Operational Impact – The significance of this process to SCAG’s strategic success, impact of process disruption.
- Change / Stability – How much the process has been altered and the change of personnel carrying out the process.
- Complexity of Operations or Laws – The number of individuals, entities, and processes involved, and the degree to which professional judgment or technical expertise is applied.
- Political / Reputation – The degree of public interest and awareness, the visibility of the process to stakeholders and the media.
- Last Audit: Time and Results – The length of time since the last audit or review was conducted and the results of that audit or review.

In the attached risk matrix, the areas of risk are rated 1 (low) to 5 (high). Each area is color-coded with yellow for 1, and dark green for 5. In general, the higher the number, the more important the area to the success of SCAG’s mission and goals.

Selection of Internal Audit Projects for 2022 Fiscal Year

Projects selected to audit at this time are considered the most useful to the immediate goals and needs of SCAG that could conceivably be improved in terms of effectiveness and efficiency.

The following are recommended Internal Audit projects for the remainder of fiscal year 2022:

- Procurement Processes
- Accounts Payable / Invoice Payments
- Board Stipends

B. Internal Audit of SCAG’s Procurements

SCAG’s Internal Auditor is performing an audit of SCAG’s procurements. The scope of this audit is all procurements for fiscal year 2020-2021. This period had 88 procurements, and Internal Audit is testing 100% of procurements in this period. One goal of this audit is to evaluate SCAG’s current procurement practices.

The objectives of this audit are:



1. Test procurements to provide assurance that all requirements are met according to SCAG policies and procedures, including procurement requirements of other government agencies that provide funding to SCAG.
2. Review the SCAG procurement process for effectiveness and efficiency, consider whether improvements are possible, and make recommendations accordingly.

Fieldwork for this audit is nearly complete. I have reviewed documentation of all 86 procurements and two cancelled procurements, which includes completed procurements and those in progress. I have reviewed the Requests for Proposals, Requests for Quotes, and Requests for Interest and Qualifications. I have interviewed numerous managers, Contract Administrators, and Project Managers with questions about specific procurements.

I am currently preparing a draft report of the results, which includes observations and recommendations to staff. When staff have responded to the report and its recommendations, I will finalize the report and present it to executive management and the Audit Committee.

C. SCAG Ethics Hotline Update

No reports were submitted to SCAG's ethics hotline since the last Audit Committee meeting.

FISCAL IMPACT:

None

ATTACHMENT(S):

1. Risk Matrix

SCAG Internal Audit Risk Matrix

Risk Ranking Definitions	Low	Low to Medium	Medium	Medium to High	High
	1	2	3	4	5

Department	Audit Area	Materiality / Financial Impact / Compliance	Strategic / Operational Impact	Change / Stability	Complexity of Operations or Laws	Political / Reputation	Last Audit - Time and Results	Average Risk Ranking
All	Business Continuity/Disaster Recovery	5	5	5	5	4	5	4.8
All	COVID-19 costs, funds, procedures	2	3	5	4	3	5	3.7
All	Ethics	5	5	4	5	5	5	4.8
All	Events	3	5	3	3	5	5	4.0
All	Policies Process	5	5	4	5	5	5	4.8
All	Project Management	5	5	4	5	5	5	4.8
All	Records Management	4	3	2	2	4	5	3.3
All	Use of Consultants	5	5	4	5	5	5	4.8
Board	Board Stipends	2	2	2	2	5	5	3.0
Board	Governance	5	5	4	5	5	5	4.8
Budgeting & Grants	Budget Process	5	5	4	4	4	5	4.5
Budgeting & Grants	Grants Process	5	5	4	4	5	5	4.7
Budgeting & Grants	Grants: Federal	5	5	4	4	4	5	4.5
Budgeting & Grants	Grants: State	5	5	4	4	4	5	4.5
Budgeting & Grants	Grants: Transportation	5	5	3	4	4	5	4.3
Contracts	Community-based Organizations	4	4	4	4	5	5	4.3
Contracts	Consultant Rates, Overhead, Fringe	5	5	4	4	5	3	4.3
Contracts	Contracts Management	5	5	5	5	5	3	4.7
Contracts	Grant Subrecipients	4	4	4	4	5	3	4.0
Contracts	Non-profits	4	4	4	4	4	5	4.2
Contracts	Procurement Processes	5	5	4	4	4	3	4.2
Contracts	Purchase Requisitions/Purchase Orders	4	4	4	4	4	5	4.2
Contracts	RFP/RFO Process	5	5	5	5	5	3	4.7
Contracts	Vendor Monitoring	5	5	4	4	5	3	4.3
Executive	Sponsorship Program	3	3	3	3	5	3	3.3
Executive	Strategic Plan	5	5	5	5	5	5	5.0

Attachment: Risk Matrix (Internal Audit Status Report)

Facilities	Security of Facilities	2	2	3	2	3	5	2.8
Finance	Accounts Payable/Invoice Payment	5	4	4	4	4	3	4.0
Finance	Accounts Receivable	5	3	4	3	3	5	3.8
Finance	Cash Management	5	4	4	4	4	5	4.3
Finance	Cost Recovery for Services	4	4	4	4	3	5	4.0
Finance	Credit Cards	2	2	2	2	4	5	2.8
Finance	Financial Reports	5	4	4	4	4	5	4.3
Finance	Indirect Costs	4	3	3	3	3	5	3.5
Finance	Investments	4	3	3	4	3	5	3.7
Finance	Labor Budgeting Charging	5	3	3	3	3	5	3.7
Finance	Payroll	5	3	3	4	3	5	3.8
Finance	Pension Liabilities	3	2	2	2	2	5	2.7
Finance	Petty Cash	1	1	1	1	2	5	1.8
Finance	Travel/Expense Reports	2	2	2	2	4	5	2.8
HR	Employee Work Schedules	4	4	5	4	2	5	4.0
HR	Hiring	4	5	5	3	3	5	4.2
HR	Personnel Rules	3	4	4	4	3	5	3.8
HR	Risk Management/Insurance	5	3	3	3	3	5	3.7
HR	Training of Staff	4	5	4	5	4	5	4.5
IT	Application Development	5	4	5	5	3	5	4.5
IT	AV Services	1	1	2	2	2	5	2.2
IT	Cyber Security	5	5	5	5	5	5	5.0
IT	Data Governance, Accuracy, Integrity	5	5	5	5	5	5	5.0
IT	Data Security	5	3	3	5	3	5	4.0
IT	Document Management	4	4	4	4	4	5	4.2
IT	Help Desk	3	5	4	4	2	5	3.8
IT	Infrastructure	3	3	3	3	2	5	3.2
IT	IT Project Management	5	5	4	5	5	5	4.8
IT	Mobile Device Management	4	4	5	5	4	5	4.5
IT	Systems Access by Staff	4	4	4	4	4	5	4.2
Planning	Compliance	5	3	4	4	5	5	4.3
Planning	Housing	5	5	4	4	5	5	4.7
Planning	Local Agency Partnerships	4	4	4	4	4	5	4.2
Planning	Mobility Planning/Goods Movement	3	3	3	3	3	5	3.3
Planning	Modeling & Forecasting	4	4	3	4	3	5	3.8

Attachment: Risk Matrix (Internal Audit Status Report)

Planning	Performance Monitoring	3	3	3	3	3	5	3.3
Planning	Planning Strategy	4	5	5	5	5	5	4.8
Planning	Regional Plan/Connect SoCal	5	5	5	5	5	5	5.0
Planning	Suballocation Grants Management	4	5	4	5	5	5	4.7
Planning	Sustainability	3	3	3	3	3	5	3.3
Planning	Transportation Finance	4	4	4	4	4	5	4.2
Planning	Transportation Planning	5	5	5	5	5	5	5.0
Public Affairs & Policy	Legislation	5	5	5	5	5	5	5.0
Public Affairs & Policy	Media	4	4	4	4	5	5	4.3
Public Affairs & Policy	Regional Services	4	5	4	5	5	5	4.7