

SOUTHERN CALIFORNIA



**ASSOCIATION of
GOVERNMENTS**

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President

Glen Becerra, Simi Valley

First Vice President

Greg Pettis, Cathedral City

Second Vice President

Carl Morehouse, San Buenaventura

Immediate Past President

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Committee Chair**

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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, March 5, 2013

10:00 a.m. – 11:00 a.m.

SCAG Offices

818 W. 7th Street, 12th Floor

Policy Committee Rm. A

Los Angeles, CA 90017

(213) 236-1800

Teleconference and Videoconference will 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
March 2013

Members

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

Representing

District 47, SCAG, 2nd Vice-President
District 46, SCAG, President
District 2, SCAG, 1st Vice-President
District 35
District 18
District 1
Gateway Cities COG

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

INSTRUCTIONS REGARDING TELECONFERENCE

Please call: Under Separate Cover

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
2244 Walnut Grove Ave.
Rosemead, CA 91770

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

Videoconference Locations

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

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

AUDIT COMMITTEE AGENDA MARCH 5, 2013

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.

REVIEW and PRIORITIZE AGENDA ITEMS

CONSENT CALENDAR

Approval Items

- | | | |
|--|-------------------|----------|
| 1. <u>Minutes of November 13, 2012 Meeting</u> | Attachment | 1 |
|--|-------------------|----------|

ACTION ITEMS

- | | | |
|---|-------------------|--------------------|
| 2. <u>FY 2012/13 External Financial Audit</u>
<i>(Basil Panas, Acting Chief Financial Officer)</i> | Attachment | 20 min 7 |
|---|-------------------|--------------------|

Recommended Action: Provide direction to SCAG’s external independent auditors concerning their audit of the fiscal year ending June 30, 2013.

- | | | |
|--|-------------------|---------------------|
| 3. <u>Internal Audit Manual</u>
<i>(Richard Howard, Internal Auditor)</i> | Attachment | 10 min 11 |
|--|-------------------|---------------------|

Recommended Action: Adopt the Internal Audit Manual.

INFORMATION ITEMS

- | | |
|--|---------------|
| 4. <u>Forensic Audit Request</u>
<i>(Councilmember Leroy Mills)</i> | 10 min |
|--|---------------|

- | | | |
|---|-------------------|--------------------|
| 5. <u>Internal Audit Status Report</u>
<i>(Richard Howard, Internal Auditor)</i> | Attachment | 5 min 31 |
|---|-------------------|--------------------|

AUDIT COMMITTEE AGENDA MARCH 5, 2013

		<i>TIME</i>	<i>PG#</i>
6. <u>Risk Management Evaluation Update</u> <i>(Basil Panas, Acting Chief Financial Officer)</i>	Attachment	5 min	33
7. <u>IT Audit Update</u> <i>(Catherine Chavez, Chief Information Officer)</i>	Attachment	10 min	35

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

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

Members Present

Hon. Carl Morehouse, San Buenaventura (**Chair**)
Hon. Glen Becerra, Simi Valley

Hon. Greg Pettis, Cathedral City
Hon. Phil Luebben, Cypress

Hon. Cheryl Viegas-Walker, El Centro, (**Vice Chair**)
Hon. Edward H. J. Wilson, Signal Hill

Representing

District 47, SCAG 2nd Vice-President
District 26, SCAG President
(Via Teleconference)
District 2, SCAG 1st Vice-President
OCCOG (Via Teleconference)

District 1
Gateway Cities COG
(Via Teleconference)

Members Not Present

Hon. Leroy Mills, Cypress

Representing

District 18

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CALL TO ORDER & PLEDGE OF ALLEGIANCE

Hon. Carl Morehouse, Chair, called the meeting to order at 10:00 a.m.

ROLL CALL

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

PUBLIC COMMENT PERIOD

None.

REVIEW and PRIORITIZE AGENDA ITEMS

None.

CONSENT CALENDAR

Approval Items

1. Minutes of October 9, 2012 Meeting

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

INFORMATION ITEMS

2. FY 2011/12 Preliminary Audit Report

Basil Panas, Acting CFO, introduced SCAG's outside independent auditors, Vasquez & Company, LLC to the committee. A bio or resume of the audit engagement team will be provided to the committee members. Ms. Peggy McBride, Principal and Ms. Linda Narciso, Manager, provided a detailed description of SCAG's FY 2011/12 preliminary audit findings that included:

- Summary of Audit Results
- Financial Audit Statements
- Report on Internal Control over Financial Reporting and Compliance
- Single Audit
- Comments to Management

Ms. McBride described the scope of the audit focus areas, the risk assessment procedures and Single Audit testing procedures which were performed using the Data Analysis Software tool (IDEA).

Hon. Phil Luebben inquired to the Audit procedures that are in place concerning the transition of the Chief Financial Officer's position. Debbie Dillon, Deputy Executive Director Administration, explained that internal controls measures have

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been in place effectively with the beginning of the transition phase which began approximately one year ago. Monitoring will continue until December 31, 2012.

Ms. Linda Narciso provided an overview of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information as it related to SCAG's respective financial position and any respective changes in the financial position.

In the Comments to Management section, there were two recommendations for improvement in the area of providing accounting records as it relates to:

- Proof and maintenance of an annual physical inventory for capital assets;
- Assigning tag numbers to grant equipment.

Hon. Phil Luebben requested additional information regarding the requirement for tracking capital assets inventory. Staff was asked to respond to the auditors recommendations.

Basil Panas, Acting CFO, explained that there are two sets of fixed asset records. The Accounting department retains a fixed asset register of \$5,000 or more individually. The Facilities department maintains a database of every asset, which includes assets under \$5,000. Staff also conducts a physical inventory annually in March of every asset in the agency. The physical inventory register is then reconciled with the accounting asset register. The difference would be the asset inventory that is less than 5,000. Unfortunately, the fixed asset inventory records conducted in March of 2012 was not retained and therefore proof of the required physical inventory for capital assets was not available. Going forward, management will ensure that the physical inventory records are maintained and made available to the auditors.

In reference to assigning tag numbers to grant equipment, the process involves finding a way to tag equipment in a convenient place that will be visible. Most IT equipment is stored at the Las Vegas colocation facility. Once the equipment is tagged, photographs of the equipment will be stored at the SCAG offices along with the fixed asset records; both will be made available to the auditors for their file.

In closing, Ms. McBride stated that there were no audit findings, significant deficiencies or material weaknesses identified with SCAG's FY 2011/12 Draft Financial Audit. SCAG Management is required to provide the external auditors a representation letter.

Hon. Carl Morehouse, Chair, along with the committee members thanked the staff and the external auditors for an outstanding audit report.

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The final Financial Audit report will go to the Regional Council at its January 3, 2013 meeting.

The full PowerPoint presentation was included in the agenda packet.

3. Internal Audit Status Report

Richard Howard, Internal Auditor, provided an update on the follow-up survey completed on the remaining subconsultants who did not respond to the previous letters sent requesting their payment experience by a prime consultant (prime). The results were that the majority of the responses from the subconsultants indicated that there was no payment problem with their prime. However, one subconsultant responded that there was a problem with a prime. The prime is the same one previously discussed at the October 19, 2012 Audit Committee meeting.

At the last Audit Committee meeting, the Committee directed staff to analyze and report back with information and a recommendation to address the issue of tardy payments by the prime consultants to subconsultants.

Currently, SCAG's Contracts Manager reported that the non-compliance issue with the specific prime has been corrected. It was also noted in the response to Hon. Viegas-Walker's question that the prime had been in compliance in recent months with the timely management of their invoices. However, to ensure compliance on a regular basis, staff will monitor the prime's invoice management process. If it is determined that the prime consultant is deficient in its contractual obligation, management may decide to take further action.

Staff addressed the concerns presented by Hon. Cheryl Viegas-Walker, Vice-Chair, at the October 19, 2012 Audit Committee meeting. Hon. Viegas-Walker was satisfied with staff's responses.

Staff addressed the concerns presented by Hon. Leroy Mills regarding a policy change to the general prime consultant's contract. Staff concluded that since the problem was limited to one prime consultant, staff would communicate with both the prime and subconsultant at the time payment is rendered to the prime. Staff does not recommend a global process change at this time for a problem that has been identified as limited to one consultant. Staff communicated the recommendation to Hon. Mills separately; he was satisfied with staff's response.

A full summary of the Internal Audit Status report was provided in the agenda packet.

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4. Internal Audit Manual Report

Richard Howard, Internal Auditor, presented the draft Internal Audit Department Policies and Procedures Manual (Audit Manual) for review. The draft Audit Manual was prepared as part of the Association of Local Government Auditors (ALGA), recommended requirements for a peer review.

The final Policies and Procedures Manual is planned to be issued in early 2013. Mr. Howard requested that the Audit Committee members forward any additional comments or suggestions for the draft manual to him within the next few months.

Hon. Carl Morehouse, Chair, expressed appreciation for staff's effort in preparing the Policies and Procedures Manual for the Internal Audit Department.

5. IT Audit Update Report

Debbie Dillon, Deputy Executive Director, Administration and Catherine Chavez, Chief Information Officer, reported the progress of the two (2) remaining Information Technology (IT) action items recommended for improvement by the IT Audit: *Business Contingency Planning and Periodic Certification of User Profiles in Systems*. To date, three (3) recommendations have been implemented and four (4) recommendations will be implemented by February 1, 2013.

Debbie Dillon stated that progress has been made with the hardware and software aspect of the IT redundancy and business resumption capabilities, which include a major part of the contingency project being completed through the data center relocation to Las Vegas. Nevertheless, the detailed departmental business resumption/recovery procedures are still needed.

Staff determined that there are no internal resources currently available due to more urgent projects. Therefore, Ms. Dillon stated that she would lead the internal effort to prepare the business contingency plan, which would include writing and testing the full plan. It is estimated that the full planning project would be completed by the fiscal year-end.

Catherine Chavez, Chief Information Officer, provided an update on the implementation of the Periodic Certification of User Profiles in Systems. Staff met with IT Auditor, Oscar Chacon who recommended that due to the size of the organization, the scope of this item can be limited to review of those accounts with elevated privileges. Staff developed a process to capture and review these accounts on a monthly basis. In addition, the manager must provide written signature of the staff person authorized to have elevated privileges.

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Additional updates were provided on the remaining IT Audit business risks and controls issues that included a completion date of February 1, 2013.

A full summary of the IT Audit Update report was provided in the agenda packet.

STAFF REPORT

None was presented.

FUTURE AGENDA ITEMS

- IT Audit Action Item Updates

ANNOUNCEMENTS

There were no announcements.

ADJOURNMENT

Hon. Carl Morehouse, Chair, adjourned the meeting at 10:56 a.m. The next regular meeting of the Audit Committee will be held on Tuesday, March 5, 2013 at the SCAG Los Angeles office.

Minutes Approved by:

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



REPORT

DATE: March 5, 2013
TO: Audit Committee
FROM: Basil Panas, Acting CFO, 213-236-1817, panas@scag.ca.gov
SUBJECT: FY 2012/13 External Financial Audit

RECOMMENDED ACTION:

Provide direction to SCAG's external independent auditors concerning their audit of the fiscal year ending June 30, 2013.

EXECUTIVE SUMMARY:

SCAG's external independent auditor will present the FY 2012/13 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, will commence their preliminary work in May 2013 for the audit of SCAG's FY 2012/13 financial statements. They will discuss their audit plan and receive input and questions from the Committee.

FISCAL IMPACT:

None.

ATTACHMENT:

FY 14 Audit Plan.

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Presentation of our Audit Plan for Southern California Association of Governments

Vasquez & Company LLP offers a dedicated local team and a commitment to provide an exceptional client experience

Client Service Team



Gilbert R. Vasquez, Coordinating Partner

Vasquez Managing Partner and past-President of the California Board of Accountancy with over forty (40) years of public accounting and auditing experience will ensure the Vasquez team is meeting all expectations and commitments. He will assist in the monitoring, reviewing and evaluating the engagement.



Margaret (Peggy) McBride, Engagement Partner

Vasquez Government Practice Leader and former KPMG partner on numerous governmental audit engagements such as SANDAG, SANBAG and transportation authority audits, and partner-in-charge of governmental advisory services for the Western Region, will have the responsibility of directing the technical performance and oversee the operations of the engagement team.



Federico Quinto, Jr., Concurring Principal

Vasquez Quality Control Leader with our Firm and former member of the California Board of Accountancy Report Quality Monitoring Committee with over thirty (30) years of audit and accounting experience will act as the concurring partner for the SCAG engagement. He will be available throughout the engagement as a technical resource to the engagement team.



Linda Narciso, Engagement Manager

Vasquez Government and Nonprofit Practice Manager with nineteen (19) years of public accounting experience will be responsible for managing the audit team for the SCAG engagement. She will oversee the operations of the fieldwork and provide guidance on audit procedures, reporting and presentations.



Susan Garcia, Engagement Supervisor

Vasquez Government, Nonprofit and Employee Benefit Plan Practice Groups Supervisor with ten (10) years of audit experience will work with the engagement manager in planning, budgeting and designing a tailored audit program for the engagement. She will have direct participation in performing audit procedures and report preparation as well as guidance to audit staff in the field.

Deliverables

- Independent Auditors' Report on the CAFR
- Report on SCAG's compliance with federally funded programs (Single Audit)
- Recommendations on Internal Control Improvements (if any)
- Report on SCAG's compliance with relevant laws and regulations and internal accounting controls

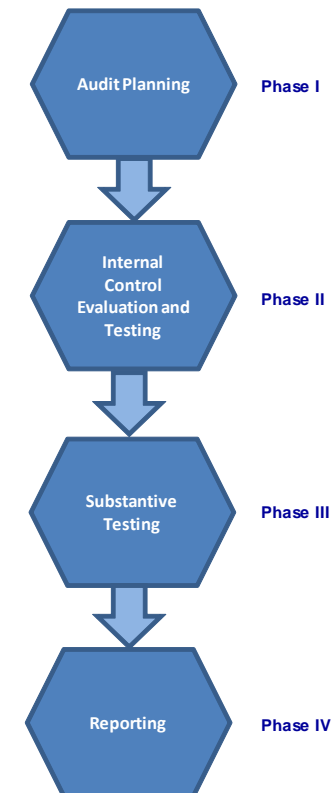
Quality Assurance

- Commitment to treat SCAG as a high priority client serviced by our most knowledgeable and experienced staff.
- Dedicated Relationship Partner for direct line of communication to ensure all commitments and expectations are met.
- Dedicated Project Manager for centralized management to better coordinate communication.
- Dedicated QC Department ensures adherence to accounting best practices.
- Relevant technical training provided to Vasquez auditors and available to SCAG staff.

SCAG Responsibilities

- Take responsibility for all accounting decisions and for the financial statements.
- Provide normal and reasonable access to personnel to assist in updating our staff with the flow of information through the departments, accounting system and systems of internal controls.
- Assistance in preparation of confirmations, audit schedules (with supporting information), and CAFR.

Audit Approach



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
- Indirect cost allocation
- Compliance with grant agreements and OMB Circular A-133

Planned Audit Procedures

- I. Internal controls testing
- II. Risk assessment (use of IDEA software)
- III. Substantive Procedures
 - Confirmation of selected balances
 - Analytical review
 - Search for unrecorded liabilities
 - Vouching
 - Test of compliance

Audit Materiality

Qualitative guidelines we use to establish materiality may range up to 10% of the change in net assets and/or up to 1% of SCAG's gross revenue.

Timetable

Description	Responsibility	Scheduled Date
Entrance Meeting (presentation of the audit plan to the Audit Committee)	V&Co	March 5, 2013
Entrance meeting with Finance - Interim Work	V&Co/SCAG	May 20, 2013
Interim Work	V&Co	May 20 to 31, 2013
Entrance conference - Year End	V&Co/SCAG	September 9, 2013
Year End Fieldwork	V&Co	September 16 to October 11, 2013
Exit meeting	V&Co/SCAG	October 18, 2013
Draft report	V&Co	October 25, 2013
Presentation to the Audit Committee	V&Co	November 2013
Final report	V&Co	November 2013

GASB Pronouncements

GASB STATEMENTS	EFFECTIVE DATE
GASB 62 - Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements	Periods beginning after December 15, 2011
GASB 63 - Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	Periods beginning after December 15, 2011
GASB 64 - Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53	Periods beginning after June 15, 2011
GASB 65 - Items Previously Reported as Assets and Liabilities	Periods beginning after December 15, 2012
GASB 66 - Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62	Periods beginning after December 15, 2012
GASB 67 - Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25	Fiscal years beginning after June 15, 2013
GASB 68 - Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27	Fiscal years beginning after June 15, 2014
GASB 69 - Government Combinations and Disposals of Government Operations	Periods beginning after December 15, 2013



Vasquez & Company LLP
 Presentation to the Audit Committee

AUDIT PLAN
For the Fiscal Year Ending June 30, 2013

March 5, 2013

REPORT

DATE: March 5, 2013

TO: Audit Committee

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

SUBJECT: Adoption of Internal Audit Manual

RECOMMENDED ACTION:
Adopt the Internal Audit Manual.

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

BACKGROUND:
As reported at the last Audit Committee meeting, a draft Internal Audit Manual was completed and sent to Audit Committee members. A copy also went to one of the peer review committee members from the Association of Local Government Auditors (ALGA). The ALGA committee member made several suggestions to the manual which were added to the manual. Since then two additional modifications have been made to the manual to incorporate new knowledge and suggestions. One of the modifications is a minor change in wording while the other is the introduction of a risk-based audit plan to assist in preparing the annual audit work plan.

Best practices in internal auditing are tending toward a risk-based approach. The purpose of risk-based auditing is to allocate scarce internal audit resources to the areas that pose the highest risk. Risk-based audit planning begins with requests to the Audit Committee and senior executive management for their input on high-risk areas. The Internal Auditor then develops an audit plan to focus resources on these areas. Of course, the process is much more detailed than this.

Risk-based audit planning has several advantages:

- It promotes effective/efficient use of limited audit resources;
- It ensures relevant information is obtained from all levels of management, the Board of Directors (Regional Council) and key directors and staff;
- It establishes a basis for effective management of the internal audit function through planning;
- It provides information about how an individual audit area is related to the overall organization goals and objectives.

The draft initial Audit Manual has been changed to incorporate risk-based auditing procedures on page 8.

FISCAL IMPACT:
None.

ATTACHMENT:
Internal Audit Manual

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**SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS
(SCAG)**

INTERNAL AUDIT DEPARTMENT

POLICIES & PROCEDURES MANUAL

NOVEMBER 5, 2012

DRAFT

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3. Competence
4. Quality Control and Assurance
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 - b. Attestation Engagements
 - c. Performance
 - d. Nonaudit Services

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A.Organization

A.1. Internal Audit Charter

The internal audit function was established by the Regional Council and the SCAG Executive Director, pursuant to the Internal Audit Charter adopted in 2002. The objective of the internal audit function is to assist all members of management in the efficient and effective discharge of their responsibilities by furnishing them with independent analysis, appraisals and recommendations. The Internal Auditor is authorized to conduct such audits/reviews of any department system or function as are necessary to accomplish its objective. The Internal Auditor is authorized complete and unrestricted access to all SCAG records, personnel and physical properties relevant to the performance of the audit/review. The Internal Auditor reports to the Audit Committee. Administratively, the Internal Auditor has a dotted-line reporting responsibility to the Chief Financial Officer.

A.2. Code of Ethics

Generally Accepted Government Auditing Standards (GAGAS) establishes fundamental principles of ethical behavior. The public expects auditors who conduct their work in accordance with GAGAS to follow ethical principles. Other ethical requirements or codes of professional conduct may apply to auditors who conduct audits in accordance with GAGAS. For example, Certified Public Accountants (CPAs) are required by their state boards of accountancy to have ethics training to renew their licenses.

The ethical principles that guide the work of the auditors who conduct audits in accordance with GAGAS are: a. the public interest; b. integrity; c. objectivity; d. proper use of government information, resources and positions; and e. professional behavior.

As an employee of SCAG, the Internal Auditor is required to abide by the SCAG Ethics Policy which was approved by the SCAG Regional Council on April 2, 2009. All employees are required to affirm each year that they have read, accept and will abide by all provisions of the Ethics Policy.

A.3. Standards

The SCAG Internal Audit Charter requires that the Internal Auditor adhere to the GAGAS promulgated by the Comptroller General of the United States. Use of GAGAS also provides a framework for conducting high quality audits with competence, integrity, objectivity and independence.

In addition, the SCAG Regional Council has voted to adopt GAGAS for the internal audit function.

B. General Standards

B.1. Independence

The Internal Audit Department (Internal Audit) staff must be independent in mind and independent in appearance so that their findings, conclusions and recommendations are impartial and will be viewed as impartial by reasonable and informed third parties.

The Internal Audit staff should be independent of the entity being audited during the period covered by the audit. Threats to independence should be considered, as set forth in GAGAS 3.07 et seq. These threats should be documented. If the threats are not acceptable, the auditors should document the categories of threats and the mitigation to reduce threats to an acceptable level. If threats cannot be eliminated or reduced to an acceptable level, the audit should be declined.

Threats after the audit report is issued should be evaluated and the auditor should take appropriate steps, as described in GAGAS 3.26.

The auditor should document any considerations of independence and any judgments made regarding independence.

B.2. Professional Judgment

Professional judgment includes exercising reasonable care and professional skepticism. Reasonable care includes acting diligently in accordance with applicable professional standards and ethical principles. Professional skepticism is an attitude that includes a questioning mind and a critical assessment of evidence. In exercising professional skepticism, the auditor assumes neither that management is dishonest nor of unquestioned honesty. Judgments made are dependent upon the auditor's competence.

B.3. Competence

Internal Audit staff must have adequate professional competence to address audit objectives and perform the audit work in accordance with GAGAS. Competence is derived from a blending of education and experience.

Audit staff must have the knowledge and skills appropriate for the work being performed. For example, if the audit work involves review of information systems, knowledge and skill in information technology is appropriate. The Internal Auditor must

evaluate and determine if staff has the qualifications and competency for the audit work to be performed.

Auditors performing work in accordance with GAGAS should maintain their professional competence through continuing professional education (CPE). Generally, the auditors are required to obtain 80 hours of CPE in each two-year period, with at least 20 hours of CPE in each year.

Auditors performing work in accordance with GAGAS should also complete, every two years, at least 24 hours of CPE that directly relates to government auditing.

Internal Audit should have a procedure to ensure that auditors meet the CPE requirements. Auditors' CPE status should be reviewed on a quarterly basis.

Auditors should be knowledgeable of relevant American Institute of Certified Public Accountants (AICPA) standards. Internal Audit should have a process for recruitment, hiring, continuous development, assignment and evaluation of staff to maintain a competent workforce.

B.4. Quality Control and Assurance.

Internal Audit must establish and maintain a system of quality control. The system should provide Internal Audit with reasonable assurance that it is complying with professional standards and applicable legal and regulatory requirements.

Internal Audit should document its quality control policies and procedures and should document its compliance with these policies and procedures. The policies and procedures should address:

- a) The Internal Audit management has leadership responsibilities including designation of responsibility for quality of audits performed in accordance with GAGAS;
- b) Maintaining independence and complying with applicable legal and ethical requirements;
- c) Providing reasonable assurance that Internal Audit will undertake audits only if it can comply with professional standards, legal requirements and ethical principles;
- d) Having the human resources that are capable and competent to perform audits in accordance with professional standards and legal and regulatory requirements;
- e) Providing reasonable assurance that audits are performed and reports issued in accordance with professional standards and legal and regulatory requirements;
- f) Monitoring compliance with quality control policies and procedures to determine if professional standards and legal and regulatory requirements have been

followed, the quality control system has been properly designed and the quality control policies and procedures are operating effectively and complied with in practice. Monitoring is required to be done at least annually.

Internal Audit should obtain an external peer review at least once every three years. For the first peer review the review should cover a period ending no later than three years from the date internal audit began its first audit in accordance with GAGAS. A copy of the peer review report should be provided to the Audit Committee and also to the Regional Council.

B.5. Types of Audits

Financial audits provide an opinion about whether an entity's financial statements are presented fairly in all material respects. Included in financial audits are compliance relating to government programs and forming opinions on specified items of financial statements. Internal Audit does not normally perform a financial audit of SCAG. This is done by an independent CPA firm. The independent CPA firm is selected by the Audit Committee through a competitive procurement and reports to the Audit Committee. The procurement is done at least every three years.

Attestation engagements are examinations or reviews on a subject matter that is the responsibility of another party. Included are agreed-upon procedures in which the auditor does not express an opinion.

Performance audits provide findings or conclusions based on an evaluation of evidence against criteria. These are program audits that assess efficiency and effectiveness of a particular program.

Auditors shall adhere to the audit standards that are appropriate for the audit being performed, i.e., attestation, performance, etc.

Nonaudit services are defined as professional services other than audits or attestation engagements. GAGAS does not cover nonaudit services.

C.SCAG Internal Audit Procedures

C.1.Audit Committee

The Audit Committee was formally established by the SCAG Regional Council to be responsible for the independent review and oversight of SCAG's financial reporting processes, internal controls and independent auditor. The Internal Audit staff reports to the Audit Committee with a dotted-line administrative responsibility to the SCAG Chief Financial Officer (CFO).

The Audit Committee reviews and approves the Internal Audit staff's annual workplan. The Committee also receives and reviews draft internal audit reports directly from the Internal Auditor.

The Internal Auditor provides status reports to the Audit Committee throughout the year, usually at the time of Audit Committee meetings. These reports give the Committee the current status of ongoing audits, recently completed audits and future audits planned.

The Audit Committee will meet with the Internal Audit staff on an as needed basis to discuss any matters that the Committee or the Internal Audit staff believes should be discussed privately.

The Audit Committee is responsible for establishing the overall policy for SCAG's internal control systems and for ensuring that the Regional Council and SCAG management are in full support of the system of internal controls. The Audit Committee is also responsible for evaluating the effectiveness of SCAG's internal control systems.

C.2. Risk Assessment

The level of risk at SCAG may vary from department to department or program to program. The internal audit staff should perform an assessment of these risks. The risk assessment is necessary to establish the annual audit workplan.

The internal audit staff begins the process by requesting input from the Regional Council, the Audit Committee and senior SCAG management on areas that they see as potential high-risk. The internal audit staff also asks where these groups would like to see audit resources focused.

Internal audit uses this information to establish impact and probability risk factors. A matrix is developed showing the highest to lowest risks for SCAG. From this ranking, an audit workplan can be prepared, making the most efficient use of audit resources.

~~The level of risk at SCAG may vary from department to department or program to program. The Internal Audit staff should perform an assessment of these risks. The risk assessment is based on impact and probability risk factors.~~

~~Impact evaluates the effect resulting from a breakdown in SCAG's environment, processes and/or controls. Probability is the likelihood that an event will occur. Impact and probability are broken down into evaluation factors. These factors are each given a weight based on their importance in evaluating overall risk. For example, an important impact might be scrutiny by federal or state agencies resulting in penalties. This would be given a higher weight than other impacts. An example of a probability with a higher weight might be non-compliance with federal or state regulations. The~~

~~impact and probability weights are added together to establish a ranking of risk scores. From this ranking, Internal Audit staff begins to prepare an audit workplan.~~

C.3. Audit Workplan

Internal Audit staff prepares an annual workplan based on the Risk Assessment [described above](#). The workplan is for the fiscal year, from July through June. The audit workplan is submitted to the Audit Committee for approval, usually in May of each year. The Audit Committee will either approve the audit workplan or request changes. If changes are requested, the plan will be amended and resubmitted at the next Audit Committee meeting, usually in June, for approval.

The audit workplan is a broad, higher level plan describing the types of audits planned and the estimated hours needed to complete the audits. Examples of types of audits in the workplan are: Contract Preaward audits – 500 hours; Information Technology – 400 hours; Travel Expenses – 200 hours, etc.

C.4. Preliminary Survey

A preliminary survey is usually required before starting an audit. The preliminary survey is undertaken to review the subject and determine whether an audit is required and, if so, what type of audit should be performed. The survey will determine whether audit resources should be applied to an audit or, if an audit is not recommended, a report should be issued explaining the reason for the recommendation.

C.5. Planning

A written audit plan must be prepared for each audit. Internal Audit staff must adequately plan and document the planning of the work necessary to address the audit objectives. The audit is intended to accomplish the objectives. Planning takes into account the objectives, the scope and the methodology of the audit. Scope is the boundary of the audit and is directly tied to the audit objectives. Methodology describes the nature and extent of audit procedures for gathering and analyzing evidence to address the audit objectives. Audit management should assign sufficient staff with adequate competence to perform the audit.

Auditors should have an understanding of the nature of the programs, internal controls, information systems controls, laws, regulations, contracts and grant agreements, as well as any ongoing investigations or legal proceedings within the context of the audit objectives. Auditors should also review any previous audits or attestation engagements relating to the current audit objectives.

C.6. Audit Program

There are several types of audit programs to be used by the Internal Audit staff.

Contract Preaward Audit

SCAG follows the preaward audit program as set forth in California Department of Transportation (Caltrans) Local Assistance Procedures Manual, Exhibit 10-M. This program is to be used and modified as required by the circumstances. See Appendix A.

Incurred Cost Audits

This type of audit program is used for internal audits of SCAG financial systems and for SCAG subregions. It includes reviews of labor charging including timekeeping, fringe benefit and overhead rates and charges and paid bills. See Appendix B. Specialized Audit Programs

Occasionally modifications to the standardized programs are necessary for special purpose reviews. Examples are travel expenses, procurement reviews, etc.

C.7. Contract Preaward Audits

Internal Audit staff is required to perform preaward audits on all contract proposals above \$250,000. The program noted above under C.6 is used for these audits. Internal Audit staff is also required to perform a preaward review of amendments to contracts if either the original contract was over \$250,000 or the amendment raises the contract value to greater than \$250,000.

The objectives of a preaward audit are: To determine whether the costs are current, reasonable, accurate and allowable; whether the consultant is financially capable to perform the contract; and whether the consultant's accounting system is adequate to record costs under government contracts.

On occasion, Internal Audit staff will be requested to perform preaward reviews of proposals under \$250,000. If the proposed consultant or a subconsultant submits direct labor, overhead or fringe benefit rates that are unusually high or, the consultant is new to SCAG or the consultant's financial capability is not clearly evident, a review might be requested.

If, in a contract proposal over \$250,000, any subconsultant is less than \$25,000, that subconsultant is not normally audited, unless the subconsultant's proposal contains

some unusual item. The Internal Auditor will determine whether an item is considered to be unusual.

C.8. Entrance Conference

Internal Audit staff should arrange a formal entrance conference with auditees at the start of an audit. The objectives of the conference are to meet key members of the auditee staff, discuss the scope of the audit and the audit program, determine key contact persons and discuss the timeframe of the audit. Other subjects related to the audit may also be introduced into the entrance conference, as well.

Prior to the entrance conference, the auditor must review any prior audits, findings and recommendations. These should be used to set the scope of the current audit. Prior audit findings and recommendations should be discussed at the entrance conference.

Not all audits will have a formal entrance conference. For example, contract preaward audits will usually begin with phone calls and emails between Internal Audit staff and the consultants' key contacts. At that point document requests are usually made and time estimates are discussed.

Document requests should be made formally for all types of audits. See Appendix C, Information Document Request.

C.9 Performing Audits

Internal Audit staff must obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions. Sufficiency is a measure of the quantity of evidence used to support the findings and conclusions related to the audit objectives. Appropriateness is the measure of the quality of evidence that encompasses the relevance, validity and reliability of evidence used for addressing the audit objectives and supporting findings and conclusions.

Auditors use professional judgment to determine the sufficiency and appropriateness of evidence taken as a whole. Auditors may use different types of evidence. Evidence obtained through direct physical examination or observation is the most reliable. Other types of evidence may be used such as original documents, copies of original documents, testimony from individuals who are not biased and can speak freely and evidence from a knowledgeable, credible and unbiased third party.

Evidence is sufficient and appropriate when it provides a reasonable basis for supporting the findings or conclusions within the context of the audit objectives.

C.10. Testing and Sampling

Testing is a necessary step in audits. Internal Audit staff shall review internal controls as part of audits at SCAG. After reviewing internal controls with auditees and completing questionnaires, the next step is to test the assertions made and questions answered to verify that the controls are working as claimed.

Tests should be of such a size and nature to substantiate what is actually happening in the processes under examination. For example, a test of accounts payable must be of such magnitude that it represents what is actually being done in processing invoices and is not just a rare exception.

Internal Audit staff may use statistical sampling whenever possible in performing audits. Sampling can be classified into two main categories of estimation and acceptance sampling. Estimation sampling provides an answer to the question of how many or how much. For example, estimation sampling would be used to estimate how many invoices were processed without proper documentation. Acceptance sampling's purpose is to accept or reject a statement of condition.

C.11. Work Papers

Work papers are a record of the work done on an audit. Work papers support the information presented in the final audit report, especially the findings and recommendations. Work papers also are used to allow others to review the audit work and to do a quality review.

Work papers should be organized according to the Workpaper Index. This index should be used for all types of audits. Modifications can be made for differences in the type of audit performed. See Appendix D, Workpaper Index.

Each page of the work papers should be indexed, in line with the Workpaper Index. Each page should be indexed in red pencil in the lower right corner of the page.

Where large documents are included in the work papers, such as the Request for Proposal (RFP) or a contract, only the first page should be indexed rather than every page. An exception to this is where a certain page of the document is referenced to another work paper or to the audit report.

Work papers should be cross-referenced to other work papers and to the audit report. The work papers should be complete, clear and accurate. Another auditor who is unfamiliar with the audit should be able to read and understand the work paper, the work done and the conclusions drawn.

The work papers should indicate the evidence examined to form conclusions or opinions. The evidence should be sufficient and appropriate to provide a reasonable basis for the findings and conclusions.

Evidence obtained through direct physical examination or observation is generally the most reliable. Evidence obtained from a credible and unbiased third party is generally more reliable than evidence obtained from management of the entity being audited.

Examination of original documents is more reliable than examining copies.

Work paper retention should be in accordance with SCAG's record retention policies. Work papers should be available to other auditors upon request.

C.12. Quality Control

Quality control procedures should ensure that Internal Audit staff are independent, use professional judgment, are competent, and adequately plan audits. The procedures also should ensure that Internal Audit staff obtain sufficient appropriate evidence to support findings, document the audit findings and present them in an audit report.

As part of the quality control system, monitoring procedures should be established. The monitoring should evaluate whether a) professional standards and legal and regulatory requirements have been followed, b) the quality control system has been appropriately designed and c) quality control policies and procedures are operating effectively and complied with in practice.

Internal Audit should analyze and summarize the results of its monitoring process at least annually, with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. Deficiencies should be communicated to appropriate personnel.

Auditors must document any departures from GAGAS and the impact of such departures on the audit and the auditor's conclusions.

At least once every three years Internal Audit should undergo a peer review.

C.13. Audit Findings

The elements of audit findings are as follows:

Criteria: These are the laws, regulations, contracts, grants or other benchmarks against which performance is compared or evaluated. Criteria are the desired state of a program or operation.

Condition: This is the situation that exists. It is determined and documented during the audit.

Cause: This is the reason for the condition found. It is the factor or factors that lead to the difference between the condition that exists and the criteria.

Effect: This is the result or the impact of the difference between the condition and the criteria.

These elements should be clearly identified and documented in the audit work papers. Then they should be clearly shown in the audit report. Clearly means that a reasonable person reading the report or the work paper will be led to the same conclusion as the auditor.

The findings should be those that will achieve audit objectives. The auditor should place findings in perspective by describing the nature and extent of issues being reported and the extent of work performed. The findings should be related to the population or number of cases examined or other measures as appropriate.

C.14. Exit Conference

After completion of audit field work and determination of findings, an exit conference is to be held with the auditee's representatives. The audit results are summarized and presented to the auditee at the conference. If the auditee has no disagreement with the findings, the next step will be to prepare a draft audit report. If there is disagreement with the findings, this should be discussed at the exit conference. The nature of the disagreement dictates whether further research or audit work will be necessary.

As discussed under the Entrance Conference, contract preaward audits may not have an exit conference. SCAG's contract administrators may notify the consultants of the findings and any questioned costs as they prepare to negotiate the contract.

C.15. Draft Audit Report

After the exit conference and completion of any additional audit work, a draft audit report is prepared and a copy sent to the auditee. A response is requested from the auditee. Usually the response is requested within thirty days. This time frame may vary, depending on the nature or significance of the findings.

The results should be communicated to appropriate officials and should present sufficient, appropriate evidence to support the findings.

The draft report should describe the objectives and scope of the audit as well as the time period audited. A narrative of the audit work and the findings and recommendations should be included. The findings should be described clearly so that a third party who reads the draft will understand what the facts and circumstances of the findings are.

The recommendations should flow naturally and should resolve the problem.

The report should show the scope of work on internal control, any significant deficiencies in internal control and which are material weaknesses. Also the report should show instances of fraud, noncompliance with laws, regulations, contracts or grant agreements that are significant within the context of the audit objectives.

The draft report should be reviewed by management of Internal Audit before a copy is sent to the auditee. Any questions or discrepancies should be discussed and clarified before the draft report is sent to the auditee or any other outside parties.

The report should state that the audit was performed under GAGAS, if that is the case. The report also must state that use of the report is restricted to specified parties, if such is the case.

C.16. Auditee Response

As noted above, the auditee receives a copy of the draft audit report with a request to provide a written response to the findings within a certain period of time. The auditee's response is reviewed by the Internal Audit staff. If there is a difference between the response and the auditee's comments at the exit conference, Internal Audit will attempt to reconcile the difference.

If there is some misunderstanding of the findings on the part of the auditee, Internal Audit will give the auditee the opportunity to revise the response. Otherwise, the auditee's response will be included in the final audit report, along with Internal Audit's analysis of the response.

C.17. Final Audit Report

After the auditee has provided a response, the final audit report will be prepared. Usually the findings, discussion and recommendations will be the same as in the draft report. However, if the auditee does not concur with the report and submits credible evidence that changes the findings or recommendations, Internal Audit staff is required to review and evaluate the new evidence. If further audit work is required, this should be performed. Internal Audit should not ignore any new evidence since failure to fully investigate the auditee's response could damage the credibility of the audit report.

The auditee's response should be included verbatim in the final audit report. The Internal Audit staff should analyze the response and include an analysis of the response immediately following the response. As mentioned in the preceding paragraph, any new evidence that changes materially the original findings or recommendations should be thoroughly discussed.

If an audit is terminated and a report is not issued, the auditor should document this and why the audit was terminated. If confidential information is excluded from the report, the auditor should disclose that information was omitted and the reason why. Any limitation on report distribution should be documented. Reports should be distributed to those charged with governance, the appropriate audited entity officials and to appropriate oversight bodies or those organizations requiring or arranging for the audit.

A copy of the final report should be cross-referenced to the work papers and kept in the work paper file.

The same procedures as outlined above should be followed with respect to contract preaward audits. The only difference is that a draft and final report are not sent to the consultant and a response from the consultant is not included in the report.

C.18. Audit Follow-up

Generally, follow-up reviews will be made of audit report recommendations, except in the case of contract preaward audits. The follow-up activity should be directed to encouraging the implementation of recommendations, rather than finding examples of lack of action.

The follow-up activity may be either a brief, simple review of the status of recommendations or a full-blown audit of the particular area that was previously audited. The importance or materiality of the previous findings will dictate the level of follow-up work.

The follow-up activity may be considered nonaudit services. See Section C.20 for further discussion of nonaudit services.

A report should be issued describing the follow-up results. The type and size of the report will depend on whether the follow-up was only a simple review or a full audit. The report will describe the progress made on recommendations and whether further work is necessary.

C.19. Fraud

Fraud involves obtaining something of value through willful misrepresentation. Internal Audit staff should report any detected instances of fraud in accordance with GAGAS.

The severity of the fraud detected and the response by the auditee's management dictates the manner of reporting by the Internal Audit staff.

Tips from third parties should be followed up. SCAG Internal Audit maintains a hot line to receive any tips from whistleblowers. **The number is (213) 236-1979.**

Audit procedures should be extended when there are indications of fraud. Auditors should exercise professional judgment so as not to interfere with potential investigations or legal proceedings.

Internal Audit staff should report known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse directly to parties outside the audited entity in the following two circumstances:

- a. When entity management fails to satisfy legal or regulatory requirements to report such information to external parties specified in law or regulation, auditors should first communicate the failure to report such information to those charged with governance. If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the information directly to the specified external parties.
- b. When entity management fails to take timely and appropriate steps to respond to known or likely fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse that (1) is significant to the findings and conclusions and (2) involves funding received directly or indirectly from a government agency, auditors should first report management's failure to take timely and appropriate steps to those charged with governance. If the audited entity still does not take timely and appropriate steps as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the entity's failure to take timely and appropriate steps directly to the funding agency.

Internal Audit staff should also consider abuse as they perform their audits. Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.

C.20. Other Matters

Nonaudit services, which are defined as professional services other than audits or attestation engagements, are not covered by GAGAS. Internal Audit staff should notify

requestors that nonaudit services requested do not constitute audits conducted in accordance with GAGAS. Internal Audit staff should be cognizant of any threats to their independence in performing nonaudit services and should document the fact.

The Internal Auditor will be the designated person to oversee nonaudit services. Management responsibility should be documented. The Internal Auditor should document the understanding with Management regarding nonaudit services, namely the objectives, services to be performed, entity's acceptance of responsibilities, auditor's responsibility and limitations of nonaudit services.

If an auditor has performed nonaudit services for an entity that is a prospective auditee, the auditor should evaluate the impact of those services on independence before accepting the audit. Any impairment due to nonaudit services should be disclosed in the audit report.

When performing nonaudit services not specifically prohibited, the auditor should use the conceptual framework to evaluate independence. When preparing separate evaluations about the effectiveness of the internal control system, auditors should evaluate the management participation threat and any applied safeguards.

If any specialists are to be used, auditors must assess the qualifications of the specialists and document the assessment.

C.21. Supervision

Audit supervisors or those designated to supervise auditors must properly supervise staff. Audit supervision involves providing sufficient guidance and direction to staff assigned to the audit to address the audit objectives and follow applicable requirements, while staying informed about significant problems encountered, reviewing the work performed, and providing effective on-the-job training.

The nature and extent of the supervision of staff and the review of audit work may vary depending on a number of factors, such as the size of the audit organization, the significance of the work, and the experience of the staff.

With currently a one-person staff, the Internal Auditor should take the necessary actions to ensure that quality audits and work are performed under GAGAS and professional standards.

REPORT

DATE: March 5, 2013
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 November 13, 2012, three preaward audits of contract proposals over \$250,000 were completed. Two of the proposals were for \$1,886,618 and \$2,436,936, and the third was for \$299,984.

A peer review by the Association of Local Government Auditors (ALGA) was requested. SCAG joined ALGA in June 2012 in order to have ALGA perform a peer review. ALGA notified us that audit organizations must be members for two years before a peer review can be performed. We requested a waiver of this requirement but ALGA rejected the request. Consequently, the peer review will be completed on or around July of 2014.

ALGA also requires that audit organizations requesting a peer review must supply auditors to perform peer reviews at other audit organizations. SCAG staff will participate in peer reviews requested by ALGA to meet this requirement.

FISCAL IMPACT:

None.

ATTACHMENT:

None.

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REPORT

DATE: March 5, 2013
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. All fifteen items have been completed.

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. Email retention implementation has been completed. Over 173 GB of emails were purged.

AVERAGE PRIORITY

RME No.	TYPE	ACTION ITEM	STATUS
06-03	Concurrent	Develop & implement a centralized safety manual	Completed
06-10	Concurrent	Establish a Transitional Return to Work Policy	Completed
10-03	New	Develop & implement a Repetitive Motion Injury Control Program	Completed. It is included in the Safety manual.
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)	Not applicable since the AED machines have been removed.
10-09	New	Report the number of agency volunteers to the CalJPIA	Completed

REPORT

DATE: March 5, 2013
TO: Audit Committee
FROM: Catherine Chavez, CIO, 213-236-1973, chavez@scag.ca.gov
SUBJECT: IT Audit Update

RECOMMENDED ACTION:

For Information Only-No Action Required.

EXECUTIVE SUMMARY:

Staff will report progress on the action items recommended in the IT Audit.

STRATEGIC PLAN:

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

BACKGROUND:

SCAG's outside independent auditor, Vasquez and Co., LLC, conducted an audit of the operations of the Information Technology Department. Their audit report was issued on December 11, 2011 and made nine (9) recommendations for improvement. Due to budget issues, hiring delays and urgent projects, staff time for IT Audit activities was limited. One additional item was completed: Item 3, Application System Parameters, making a total of four (4) recommendations completed. Status on the remaining items:

Item 1 – **IT Strategic Plan.** IT projects were prioritized by staff and incorporated into the FY14 draft budget process. Staff will incorporate this budgeted project list into FY14 IT Strategic plan and will document pending, unbudgeted needs. Draft plan is due March 14, 2013.

Item 4 – **Security Violation Reporting.** The IT Auditor has recommended a simple approach to better fit an organization of SCAG's size. On this recommendation, SCAG will combine item 4 with item 6 (see below).

Item 5 – **Application System Parameters.** Role-based Dynamics GP security has been created for staff engaged in financial and human resources transactions. First written approval of these parameters is due April 10, 2013 for the third quarter.

Item 6 – **Periodic Certification of User Profiles in Systems.** Staff will create a report of Active Directory Accounts with Elevated Privileges. First approval by the Deputy Executive Director Debbie Dillon is due April 10, 2013 for the third quarter.

Item 7 – **Business Contingency Planning.** SCAG will migrate to a new email system in Las Vegas and implement a backup system in Los Angeles by March 15, 2013. Staff updated their emergency contact information in the human resources system. Deputy Executive Director Debbie Dillon will develop staff notification and reporting procedures. Update to be provided at the May 2013 Audit Committee Meeting.

FISCAL IMPACT:

None.

ATTACHMENT:

None.