



SOUTHERN CALIFORNIA  
**ASSOCIATION of  
GOVERNMENTS**

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Human Development  
Margaret Finlay, Duarte

Energy & Environment  
Deborah Robertson, Rialto

Transportation  
Alan Wapner, San Bernardino  
Associated Governments

## SPECIAL MEETING OF THE

# AUDIT COMMITTEE

***Tuesday, April 7, 2015  
2:00 p.m. – 2:30 p.m.***

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

**Teleconference will be available**  
(Location information included in packet)

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

Agendas & Minutes for the Audit Committee are also available at:  
[www.scag.ca.gov/committees.htm](http://www.scag.ca.gov/committees.htm)

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

# *Audit Committee Membership*

## *April 7, 2015*

### Members

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

### Representing

**District 16, SCAG, 2<sup>nd</sup> Vice-President**  
**District 47, SCAG, President**  
**District 1, SCAG, 1<sup>st</sup> Vice-President**  
**District 2, SCAG, Imm. Past President**  
**District 46,**  
**District 35**  
**Gateway Cities COG**

## Teleconference Locations

Hon. Michele Martinez, Chair  
300 w 2nd street, 458  
Santa Ana ca 92701

Hon. Carl Morehouse  
Ventura City Hall  
501 Poli Street, #109  
Ventura, CA 93001

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

Hon. Greg Pettis  
Beaumont Unified School District  
350 Brookside Ave,  
Beaumont, CA 92223

Hon. Margaret Finlay, Vice-Chair  
2221 Rim Road  
Duarte, CA 91008

Hon. Ed Wilson, CPA (Inactive)  
Mayor Signal Hill  
City Hall  
2175 Cherry Ave.  
Signal Hill, CA 90755



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

**INSTRUCTIONS REGARDING TELECONFERENCE**

*Teleconference number provided under separate cover*

**For Brown Act requirements, please ensure that your agenda is posted  
at your teleconference location.**

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

# SPECIAL AUDIT COMMITTEE AGENDA APRIL 7, 2015

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**TIME PG#**

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

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

*(Hon. Michele Martinez, Chair)*

## **ROLL CALL**

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

## **REVIEW and PRIORITIZE AGENDA ITEMS**

## **CONSENT CALENDAR**

### **Approval Items**

- |                                                 |            |  |   |
|-------------------------------------------------|------------|--|---|
| 1. <u>Minutes of the March 17, 2015 Meeting</u> | Attachment |  | 1 |
|-------------------------------------------------|------------|--|---|

## **ACTION ITEMS**

- |                                                                                                   |            |        |   |
|---------------------------------------------------------------------------------------------------|------------|--------|---|
| 2. <u>Peer Review of Internal Audit Function</u><br><i>(Basil Panas, Chief Financial Officer)</i> | Attachment | 15 min | 7 |
|---------------------------------------------------------------------------------------------------|------------|--------|---|

**Recommended Action:** Provide direction concerning a Peer Review of SCAG’s Internal Audit function.

## **FUTURE AGENDA ITEMS**

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

## **ANNOUNCEMENTS**



## **ADJOURNMENT**

*The next regular Audit Committee meeting is scheduled for Tuesday, June 9, 2015 at 1:00 p.m. at the SCAG Los Angeles Office.*

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Audit Committee  
of the  
Southern California Association of Governments

March 17, 2015

*Minutes*

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

The Audit Committee held its meeting at the SCAG offices in downtown Los Angeles.

**Members Present**

**Representing**

Hon. Michele Martinez, (Chair)

District 16, SCAG 2<sup>nd</sup> Vice-President  
(Via Videoconference)

Hon. Carl Morehouse, San Buenaventura

District 47, SCAG President  
(Via Videoconference)

Hon. Margaret Finlay, Duarte, (Vice Chair)

District 35 (Via Teleconference)

Hon. Greg Pettis, Cathedral City

District 2, SCAG Imm. Past President  
(Via Teleconference)

Hon. Cheryl Viegas-Walker, El Centro

District 1, SCAG 1<sup>st</sup> Vice-President  
(Via Teleconference)

Hon. Edward H. J. Wilson, Signal Hill

Gateway Cities COG  
(Via Teleconference)

**Members Not Present**

Hon. Glen Becerra, Simi Valley

District 46

**CALL TO ORDER & PLEDGE OF ALLEGIANCE**

Hon. Michele Martinez, Chair, called the meeting to order at 1:20 p.m. and asked Hon. Carl Morehouse to lead in the Pledge of Allegiance.

**ROLL CALL**

A roll call was taken at 1:21 p.m. It was determined that a quorum was present.

**PUBLIC COMMENT PERIOD**

None.

**REVIEW and PRIORITIZE AGENDA ITEMS**

There were no reprioritizations made.

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Audit Committee  
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**CONSENT CALENDAR**

**Approval Items**

1. Minutes of November 24, 2014 Meeting

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

AYES: Martinez, Morehouse, Finlay, Pettis, Viegas-Walker, and Wilson  
NOES: None  
ABSTAIN: None

**ACTION ITEMS**

2. Fiscal Year (FY) 2014-15 External Financial Audit

Basil Panas, Chief Financial Officer, introduced Engagement Partner, Ms. Peggy McBride, Vasquez & Company, LLC, SCAG's outside independent auditor who presented an overview of the FY 2014-15 audit plan process and timeline. Ms. McBride described the audit scope of key areas of emphasis and risk assessment procedures, which included, but was not limited to the following scope of services:

- Internal Control Evaluation and Testing
- Preliminary risk assessments, with additional audit focus on Fraud risks identification and Procurement procedures
- Substantive Testing of Financial Audit Statements
- Reporting on Internal Controls over Financial Reporting and Compliance Required by Generally Accepted Governmental Auditing Standards
- Review of Form 700 (Statement of Economic Interests)
- Review 2015 GASB 68 Compliance, Reporting and subsequent SCAG staff training

In addition, the Committee members requested the external auditors to add a review of the implementation of the Internal Auditor's internal controls recommendations (as further described in the report for Agenda Item No. 5) to the FY 2014-15 Scope of Services.

Staff and the audit team responded on the comments and questions expressed by the Committee, including comments pertaining to the compliance, and financial reporting procedures for GASB 68.

Basil Panas, CFO, noted that a contract amendment was in progress for added work that the external auditors will be providing as it relates to GASB 68 implementation and additional single audit procedures work. The Committee will be kept informed of additional details.



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A MOTION was made (Viegas-Walker) and SECONDED (Finlay) to approve staff's recommendation, including adding as part of the FY 2014-15 Scope of Services for the External Auditor a review of the implementation of the Internal Auditor's Internal Controls recommendations (as further described in the report for Agenda No. 5). The motion was passed by the following vote:

AYES: Martinez, Morehouse, Finlay, Pettis, Viegas-Walker, and Wilson  
NOES: None  
ABSTAIN: None

3. Peer Review of Internal Audit Function

Basil Panas, CFO, provided a brief update and status of the request previously made by the Committee to proceed with a Peer Review of the Internal Audit function. He reported that to date, the Association of Local Government Auditors (ALGA) the agreed-upon organization to conduct the review, has not yielded any results, and therefore is presenting options for the path forward.

After discussion by the Committee, a recommendation was made to award a sole source contract to Vasquez and Co., LLP, to perform the Peer Review of the Internal Audit function. In addition, the Committee directed staff to ensure that going forward, the peer review of the Internal Audit function would be included as a part of the procurement and contract with SCAG's outside independent external auditors to be conducted generally every three years.

A MOTION was made (Viegas-Walker) and SECONDED (Finlay) to approve and move forward with staff's recommendation: Award a sole source contract to Vasquez and Co., LLP, to perform a peer review of SCAG's Internal Audit function. In addition, that staff include the peer reviews of the Internal Audit function as part of the scope of service in future procurements and contracts for SCAG's external independent auditors and be conducted generally every three years. The motion was passed by the following vote:

AYES: Martinez, Morehouse, Finlay, Pettis, Viegas-Walker, and Wilson  
NOES: None  
ABSTAIN: None

**INFORMATION ITEMS**

4. Internal Audit Status Report

Richard Howard, Internal Auditor, discussed highlights of the Internal Audit Report and provided an update on the following:

- Three (3) pre-award contract audits completed since the last Audit Committee meeting on November 24, 2014; and
- A provision for a junior internal auditor position was included in the proposed budget for FY 2015-16, to ensure adequate staff coverage for the Internal Audit function.

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There were no additional discussions or comments made on this item.

5. Internal Control Review

Richard Howard, Internal Auditor, provided an overview of SCAG's systems of internal control. He noted that the internal audit of SCAG's controls and procedures were done to determine if SCAG was vulnerable to any weaknesses cited in the KPMG report which recently highlighted the alleged misappropriation of City funds in the City of Pasadena's Underground Utility Program.

Mr. Howard noted that the objective of the review was to determine if current SCAG controls were adequate to deter and detect any fraud activities by SCAG employees and consultants. The disbursement, purchasing, contracts, custody and transmittal of checks processes were reviewed.

Mr. Howard stated that the audit resulted in seven (7) recommendations. Most of the recommendations have already been implemented and the remaining are in process of being implemented.

The full Internal Control Review presentation was included in the agenda packet.

There were no additional discussions or comments made on this item. The Committee thanked Mr. Howard and staff for a thorough and comprehensive report.

6. Project Management Audit

Richard Howard, Internal Auditor, provided an overview of the Project Management Audit. Mr. Howard explained that he sampled eight out of the 55 projects that were both opened and closed during July 1, 2012 through June 20, 2014. He noted that the projects were adequately managed and complied with federal, state and SCAG regulations and policies. However, Mr. Howard recommended that a Project Management Policies and Procedures Manual and Project Management Checklist be adopted to ensure that there are uniform procedures in place to manage SCAG projects. He noted that such a manual is being prepared and is currently in the review process.

There were no additional discussions or comments made on this item. The Committee expressed their appreciation for the comprehensive report.

7. Risk Management Evaluation Update

Basil Panas, Chief Financial Officer, provided an update on the Risk Management review performed by the California Joint Powers Insurance Authority (JPIA). Mr. Panas noted that the JPIA's periodic review yielded four (4) action items; three (3) of the four action items will be completed by the next Audit Committee meeting (June 9, 2015), with the remaining action item, "Designation of ADA Grievance Coordinator" already completed.

Staff responded on the comments and questions expressed by the Committee, including comments pertaining to a formal ADA Transition Plan and ADA Self-Assessment of all public facilities.

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Audit Committee  
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*Minutes*

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**STAFF REPORT**

There was no staff report made.

**FUTURE AGENDA ITEMS**

There were no future agenda items requested.

**ANNOUNCEMENTS**

There were no announcements made.

**ADJOURNMENT**

*Hon. Michele Martinez, Chair, adjourned the meeting at 2:11 p.m. The next regular meeting of the Audit Committee is scheduled for Tuesday, June 9, 2015 at 1:00 p.m., at the SCAG Los Angeles Office.*

**Minutes Approved by:**



Basil Panas, CFO  
Staff to the Audit Committee

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# REPORT

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**DATE:** April 7, 2015  
**TO:** Audit Committee  
**FROM:** Basil Panas, Chief Financial Officer, 213-236-1817, [panas@scag.ca.gov](mailto:panas@scag.ca.gov)  
**SUBJECT: PEER REVIEW OF INTERNAL AUDIT FUNCTION**

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**RECOMMENDED ACTION:**

Provide direction concerning a Peer Review of SCAG’s Internal Audit function.

**EXECUTIVE SUMMARY:**

*The Committee previously authorized the Executive Director to award a sole-source contract to Vasquez & Co., LLP, to conduct a review of the Internal Audit function. SCAG has since been informed that the Association of Local Government Auditors can commence a Peer Review of the Internal Audit function in six months. The Committee will review the implications of this new information.*

**STRATEGIC PLAN:**

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

**BACKGROUND:**

At the meeting of March 17, 2015, staff reported that they had been unable to obtain a start date from the Association of Local Government Auditors (ALGA) concerning the Peer Review of SCAG’s Internal Audit function. The Committee was presented with three options:

**OPTION 1: Wait for ALGA to schedule SCAG’s Peer Review.**

**OPTION 2: Conduct a procurement to select a consultant to perform the Peer Review procedures.**

Since the cost of this work is likely under \$25,000, the elapsed time for this option would be four to seven weeks.

**OPTION 3: Award a sole source contract to Vasquez and Co., LLP, to perform the Peer Review procedures.** Vasquez is SCAG’s current outside independent auditing firm and has indicated that it does not have any professional conflicts that would prevent it from performing this work. This would be the most expedient option and would require the Executive Director to make a finding that selecting Vasquez as the sole source vendor for these services is in the best interests of SCAG.

The Committee selected Option 3. Since that time, ALGA has informed SCAG’s CFO that they can commence such a review in six months. This new information is being presented to the Committee for their consideration.

**FISCAL IMPACT:**

Selecting Option 1 would likely save SCAG up to \$25,000, depending on the home bases of the audit members that ALGA selects.