

SOUTHERN CALIFORNIA



**ASSOCIATION OF
GOVERNMENTS**

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Officers

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Glen Becerra, Simi Valley

First Vice President
Greg Pettis, Cathedral City

Second Vice President
Carl Morehouse, San Buenaventura

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Human Development
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Energy & Environment
Cheryl Viegas-Walker, El Centro

Transportation
Keith Millhouse, Ventura County
Transportation Commission

MEETING OF THE

AUDIT COMMITTEE

Please Note Date & Time
Tuesday, October 9, 2012
10:00 a.m. – 11:00 a.m.

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

Available via Teleconference
Available via Videoconference
(Location Information is attached)

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.

Audit Committee Membership
October 2012

Members

1. Hon. Carl Morehouse, San Buenaventura (**Chair**)
2. Hon. Glen Becerra, Simi Valley
3. Hon. Greg Pettis, Cathedral City
4. Hon. Phil Luebben, Cypress
5. Hon. Leroy Mills, Cypress
6. Hon Cheryl Viegas-Walker, El Centro (**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
OCCOG
District 18
District 1
Gateway Cities

Teleconference Locations

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

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

Videoconference Locations

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

Hon. Cheryl Viegas-Walker
SCAG Imperial Regional Office
1405 N. Imperial Avenue, Suite 1
El Centro, CA 92243

AUDIT COMMITTEE AGENDA OCTOBER 9, 2012

TIME PG#

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

CALL TO ORDER & PLEDGE OF ALLEGIANCE

(Hon. Carl Morehouse, Chair)

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

REVIEW and PRIORITIZE AGENDA ITEMS

CONSENT CALENDAR

Approval Items

- | | | | |
|--|-------------------|--|----------|
| 1. <u>Minutes of June 26, 2012 Meeting</u> | Attachment | | 1 |
|--|-------------------|--|----------|

INFORMATION ITEMS

- | | | | |
|--|-------------------|---------------|----------|
| 2. <u>Internal Audit Status Report</u>
<i>(Richard Howard, Internal Auditor)</i> | Attachment | 10 min | 5 |
| 3. <u>Risk Management Action Plan Update</u>
<i>(Basil Panas, Acting Chief Financial Officer)</i> | Attachment | 10 min | 7 |
| 4. <u>IT Audit Update</u>
<i>(Catherine Chavez, Chief Information Officer)</i> | Attachment | 15 min | 9 |

**AUDIT COMMITTEE
AGENDA
OCTOBER 9, 2012**

TIME *PG#*

FUTURE AGENDA ITEMS

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

ANNOUNCEMENTS

ADJOURNMENT

Audit Committee
of the
Southern California Association of Governments

June 26, 2012

Minutes

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

The Audit Committee held its meeting at the SCAG offices in downtown Los Angeles. The meeting was called to order by Hon. 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. Leroy Mills, Cypress
Hon. Cheryl Viegas-Walker, El Centro, (**Vice Chair**)
Hon. Edward H. J. Wilson, Signal Hill

Representing

District 47, SCAG 2nd Vice-President
(Via Teleconference)
District 26, SCAG President
(Via Teleconference)
District 2, SCAG 1st Vice-President
(Via Teleconference)
OCCOG (Via Teleconference)
District 18
District 1 (Via Teleconference)
Gateway Cities
(Via Teleconference)

Audit Committee
of the
Southern California Association of Governments

June 26, 2012

Minutes

CALL TO ORDER

Hon. Carl Morehouse, Chair, called the meeting to order at 10:04 a.m.

PUBLIC COMMENT PERIOD

None.

SELECTION OF VICE CHAIR

Motion was made (Becerra) to nominate and select Cheryl Viegas-Walker, City of El Centro, as the Vice-Chair. Motion was seconded (Morehouse). A roll call vote was taken. Motion passed.

REVIEW and PRIORITIZE AGENDA ITEMS

None.

CONSENT CALENDAR

Approval Items

1. Minutes of May 15, 2012 Meeting

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

INFORMATION ITEMS

2. Internal Audit Status Report

Richard Howard, Internal Auditor, provided a brief summary of the Internal Audits that are currently in progress. In addition, Mr. Howard reported that he is currently working on drafting a letter that will be sent to approximately 40 to 50 subconsultants to determine if the subconsultants are being paid on a timely basis by the primary consultant. As it was noted last year, several subconsultants complained that they were not being paid according to the prime contract terms. The letter is being drafted as routine audit performance correspondence and is planned for mail-out within the next week. Subconsultants will have 30 days to respond.

Hon. Leroy Mills asked if the previous subconsultant's payment concerns, which were initially reported, had been resolved. Debbie Dillon, Deputy Executive Director responded that there were two complaints. One was successfully resolved and the other is currently pending. At this time, notifications and penalties have been levied upon the prime consultant to encourage resolution.

Audit Committee
of the
Southern California Association of Governments

June 26, 2012

Minutes

3. Risk Management Action Plan Report

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

Mr. Panas reported that of the (15) actions identified to reduce future losses, a total of 11 recommendations have been completed. All remaining recommendations will be completed by December 31, 2012.

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

4. Peer Review of Internal Audit Update

At its May 15, 2012 Audit Committee meeting, staff was asked to research an organization that could provide a Peer Review of the Internal Audit function.

Richard Howard, SCAG's internal auditor, reported on the types of organizations that perform peer reviews which measure the audit organizations' compliance with professional standards. Mr. Howard noted that SCAG's Internal Audit function follows the Government Auditing Standards. The standards are commonly referred to as Generally Accepted Government Auditing Standards (GAGAS). Of the reviewing organizations researched, the Association of Local Government Auditors (ALGA) is the only one that reviews compliance strictly with GAGAS.

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

ALGA recommends that organizations formally adopt the Generally Accepted Government Auditing Standards (GAGAS). If the Committee believes that ALGA would be best suited to performing SCAG's peer review, adoption of GAGAS would be in order. This would allow the one-year period of self-assessment and review to commence. The ALGA membership cost is \$185.00; the peer review cost would be included in the FY 2014 budget and is estimated at approximately \$5,000. Therefore, staff recommended that the Audit Committee recommend that the Regional Council adopt GAGAS.

Motion was made (Luebben) to recommend approval and to forward the recommendation to the Regional Council for adoption of GAGAS. Motion was seconded (Wilson). A roll call vote was taken. Motion passed.

Audit Committee
of the
Southern California Association of Governments

June 26, 2012

Minutes

5. Audit Committee Meeting Schedule

Basil Panas, Acting CFO, proposed that the Committee meet in October 2012, November 2012 and May 2013. Hon. Mills made a motion that those meetings occur on the second Tuesday at 10:00 a.m. Motion was seconded (Luebben). A roll call vote was taken. Motion passed.

The schedule is as follows:

- | | |
|----------------|--|
| Oct. 9, 2012: | Internal Audit report update;
Preliminary external audit reports. |
| Nov. 13, 2012: | Final external audit reports covering prior fiscal year. |
| May 14, 2013: | Planning meeting with internal auditor for upcoming fiscal year and with the external auditors, Vasquez & Company LLP for the current fiscal year audit. |

STAFF REPORT

None was presented.

FUTURE AGENDA ITEMS

There were no future agenda items.

ANNOUNCEMENTS

There were no announcements.

ADJOURNMENT

Hon. Carl Morehouse, Chair, adjourned the meeting at 10:35 a.m. The next regular meeting of the Audit Committee will be held on Tuesday, October 9, 2012 at the SCAG Los Angeles office.

Minutes Approved by:

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

REPORT

DATE: October 9, 2012

TO: Audit Committee

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

SUBJECT: Internal Audit Status Report

RECOMMENDED ACTION:

For Information Only – No Action Required

STRATEGIC PLAN:

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

BACKGROUND:

Since the beginning of the fiscal year, two preaward audits of contract proposals over \$250,000 were completed. Thirty-six (36) letters were sent to subconsultants requesting their experience in getting paid by prime consultants. The letters asked if the prime consultants were paying the subconsultants in accordance with contract provisions. So far, sixteen (16) subconsultants have replied. Three indicated there were problems with being paid by the prime according to contract terms. The problems cited by the subconsultants are being investigated.

Preparations have started for a Peer Review by the Association of Local Government Auditors (ALGA). SCAG joined ALGA and registered for a Peer Review workshop in October given by ALGA. Also, an Internal Audit Policies and Procedures Manual is being prepared, as recommended by ALGA. A draft of the manual is to be ready for the November Audit Committee meeting.

In August the Internal Auditor attended a three-day training class on Information Technology (IT) Auditing and Controls. This class is important in Internal Audit's role as security oversight of IT.

In reviewing the audit work plan for the remainder of the fiscal year, it is estimated that 58% of the work hours will be spent on contract preaward audits and IT security and controls while 22% will be spent completing the Internal Audit Manual and preparing for the Peer Review. The remainder will be spent on SCAG internal audits and controls.

FISCAL IMPACT:

None

ATTACHMENT:

None

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REPORT

DATE: October 9, 2012
TO: Audit Committee
FROM: Basil Panas, Acting CFO, 213-236-1817, panas@scag.ca.gov
SUBJECT: Risk Management Evaluation Action Report Update

RECOMMENDED ACTION:
For Information Only-No Action Required.

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

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

BACKGROUND:
SCAG's insurer, the California Joint Powers Insurance Authority (JPIA), performed a risk management evaluation in December 2010 as part of its LossCAP Program. The JPIA assessed SCAG's policies, procedures and practices with respect to its risk exposures. The final report identified 15 action items aimed at reducing future losses. Attached is a summary of the progress made in executing the action items. Thirteen items have been completed. The two remaining items will be completed by December 31, 2012 or sooner.

FISCAL IMPACT:
None

ATTACHMENT:
LossCAP Action Plan

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

IMPORTANT PRIORITY

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

AVERAGE PRIORITY

RME No.	TYPE	ACTION ITEM	STATUS
06-03	Concurrent	Develop & implement a centralized safety manual	Completed
06-10	Concurrent	Establish a Transitional Return to Work Policy	Draft is under review; completion date is Dec. 31, 2012.
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: October 9, 2012
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:
As part of the FY11 annual audit, 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. The attachment describes the progress made to date in implementing those recommendations. To date, three (3) recommendations have been implemented and four (4) recommendations will be implemented by February 1, 2013. Due to staffing and budget constraints, two (2) remaining recommendations will require additional analysis and updated status by the next Audit Committee Meeting.

FISCAL IMPACT:
None

ATTACHMENT:
IT Audit Action Items

SCAG IT AUDIT ACTION ITEMS

FY11 AUDIT

As of September 24, 2012

BUSINESS RISKS AND OTHER CONTROL ISSUES			
Item #	TYPE	AUDIT RECOMMENDATION	STATUS
1	Long-Term Strategic Planning for IT	The IT Strategic Plan should be updated with the current and future projects not included therein.	Completion date: February 1, 2013. The IT Strategic Planning process and schedule has been set. By October 15, an IT needs and satisfaction survey will be sent to all employees to receive feedback and direction on issues and priorities. IT staff will draft an updated IT Strategic plan that aligns needs and objectives with the SCAG Strategic Plan and with the FY14 Overall Work Program (OWP). To leverage the results of the budgeting process, the IT Strategic Plan update will be delayed to February 1, 2013.
2	IT Capacity Planning	Implement a process to generate and review system activity and utilization reports on a consistently scheduled basis. Special consideration should be given to the accounting system's related processes and infrastructure.	Completed. SCAG's new IT outsource service provider, Allied Digital, has produced ad hoc reports during the initial phase of SCAG's onboarding process. SCAG began receiving monthly activity and capacity reports in September 2012.
3	Information Security Independence	The Information Security function should report to a party outside of IT, or to an IT-related party that is independent of operations.	Completed. SCAG has assigned the IT Senior Management Analyst, who has no IT operational role, to the role of IT security oversight. This position has dotted line reporting status to the Internal Auditor, who has been appointed as the IT security oversight officer. This organizational change has been successful since instituted in March 2012. SCAG CIO will continue to monitor the effectiveness of this organizational structure.
4	Security Violation Reporting	Management should determine an acceptable framework for logging and follow-up of security-related events on the network.	Completion date: November 1, 2012. Security logging on SCAG's Internet devices has been operational since August 2012. Allied Digital's Security Operations Center (SOC) emails alerts of attempted network intrusions and notifies external Internet Service Providers (ISPs) of suspicious activity coming from their networks. Allied Digital blocks data traffic originating from these networks. SCAG will begin reviewing the internal server logs for Active Directory and Dynamics GP monthly as of November 1, 2012.
5	Application System Parameters	Management should identify the system parameter settings and review them for potential control enhancement and optimization.	Completion date: November 1, 2012. SCAG has instituted complex passwords for Microsoft Dynamics GP. The initial review of GP system parameters will be completed as part of the Dynamics GP System 2010 upgrade, scheduled for completion by October 2012. The parameters will be reviewed quarterly beginning February 1, 2013. Regular GP audit log reviews began in September 2012 (see next item.)
6	Periodic Certification of User Profiles in Systems	Management should implement a formal access certification procedure.	Status Update: Next Audit Committee Meeting In September 2012, SCAG instituted a monthly review of the Microsoft Dynamics GP audit reports with the CFO and Manager of HR. To conduct a more extensive audit of GP and Active Directory permissions and profiles for all SCAG staff, SCAG staff received a fixed fee quote of over \$20,000 from Allied Digital. SCAG staff plans to consult the IT Auditor, Vazquez and Company LLC, to determine if there are lower cost audit methods to mitigate this risk.

SCAG IT AUDIT ACTION ITEMS

FY11 AUDIT

As of September 24, 2012

7	Business Contingency Planning	Management should document an organization-wide business contingency plan.	Status Update: Next Audit Committee Meeting SCAG has made great progress on technical improvements in IT redundancy and business resumption capabilities. SCAG has implemented a primary and secondary data center model. Allied Digital set up the secure infrastructure and moved the majority of IT systems to Switchnap, a colocation facility in Las Vegas during summer 2012. By December 2012, critical data will be replicated from Las Vegas to Los Angeles, thereby allowing either site to function during a disaster. SCAG maintains and tests the Emergency Preparedness procedures. However, departmental business resumption/recovery procedures are needed. SCAG has determined that there are no internal resources currently available to update this plan due to more urgent projects. If internal resources are identified in FY13, staff will proceed with the plan development. Otherwise, funding will be requested for FY14.
8	Environmental Controls Within Data Operations Room	We recommend SCAG make a formal determination as to the impact the humidity from the air conditioning units provides to the data servers and other network equipment, via formal discussion with vendor representatives, and identify a manner in which condensated water can be kept out of the data operations room.	Completion date: December 1, 2012. With the implementation of the two-data-center model and having "virtualized" most of its servers, SCAG has reduced the number of physical machines operating within the existing Los Angeles server room. This has reduced the load on the HVAC units and the risk for equipment failure due to overheating or water damage. Once all machines have been relocated to the new SCAG data center in Las Vegas, the temporary cooling unit will be removed.
9	Secure Server Build Standard	Management should ensure that SigmaNet utilizes a secure server standard for all SCAG servers that is utilized for new server builds and existing server security assessment. This will help ensure consistency with respect to security control.	Completed. Per Audit recommendation, Allied Digital (SIGMANet's replacement) has provided a checklist for Secure Server Build Standards and all new servers have been built using this checklist. Staff will schedule configuration review of existing servers as an additional step outside the scope of the IT Audit.