

SOUTHERN CALIFORNIA



**ASSOCIATION of
GOVERNMENTS**

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Human Development

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Energy & Environment

James Johnson, Long Beach

Transportation

Keith Millhouse, Ventura County

Transportation Commission

MEETING OF THE

AUDIT COMMITTEE

Wednesday, December 4, 2013

10:00 a.m. – 12:00 p.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

(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.

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
December 4, 2013***

Members

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

Representing

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

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

INSTRUCTIONS REGARDING TELECONFERENCE

**Please call: 1-888-557-8511
Passcode: 623765**

**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**

Teleconference Locations

Hon. Greg Pettis
City Hall
68700 Avenida Lalo Guerrero
Cathedral City, CA 92234

Hon. Glen Becerra
2244 Walnut Grove Ave.
Rosemead, CA 91770

Hon. Ed Wilson, CPA (Inactive)
Vice Mayor Signal Hill
Candidate 70th Assembly District
City Hall
2175 S. Cherry Ave.
Signal Hill, CA 90755

Videoconference Locations

Orange County SCAG Office
600 South Main, Suite 906
Orange, CA 92863

AUDIT COMMITTEE AGENDA DECEMBER 4, 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. Cheryl Viegas-Walker, 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 May 14, 2013 Meeting</u> | Attachment | 1 |
|---|-------------------|----------|

ACTION ITEM

- | | | | |
|--|-------------------|---------------|----------|
| 2. <u>Internal Control System</u> <i>(Richard Howard, Internal Auditor)</i> | Attachment | 10 min | 5 |
|--|-------------------|---------------|----------|

Recommended Action: Approve SCAG’s Internal Control System.

INFORMATION ITEMS

- | | | | |
|--|-------------------|---------------|-----------|
| 3. <u>Actuarial Report For Other Post-Employment Benefits</u> <i>(Basil Panas, Chief Financial Officer)</i> | Attachment | 20 min | 9 |
| 4. <u>FY 2012-13 Preliminary External Financial Audit</u> <i>(Basil Panas, Chief Financial Officer)</i> | Attachment | 60 min | 49 |
| 5. <u>Internal Audit Status Report</u> <i>(Richard Howard, Internal Auditor)</i> | Attachment | 5 min | 81 |
| 6. <u>IT Audit Update</u> <i>(Catherine Kirschbaum, Chief Information Officer)</i> | Attachment | 5 min | 83 |

**AUDIT COMMITTEE
AGENDA
DECEMBER 4, 2013**

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

May 14, 2013

Minutes

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. Cheryl Viegas-Walker, Chair, El Centro, District 1, at 10:00 a.m. A quorum was present.

Members Present

Hon. Cheryl Viegas-Walker, El Centro, **(Chair)**

Hon. Greg Pettis, Cathedral City

Hon. Glen Becerra, Simi Valley

Hon. Carl Morehouse, San Buenaventura

Hon. Margaret Finlay, Duarte, **(Vice Chair)**

Hon. Edward H. J. Wilson, Signal Hill

Members Not Present

Hon. Leroy Mills, Cypress

Representing

District 1, SCAG 2nd Vice-President
(Via Videoconference)

District 2, SCAG President
(Via Teleconference)

District 46, SCAG Imm. Past
President (Via Teleconference)

District 47, SCAG 1st Vice-President
(Via Videoconference)

District 35 (Via Teleconference)

Gateway Cities COG
(Via Teleconference)

CALL TO ORDER & PLEDGE OF ALLEGIANCE

Hon. Cheryl Viegas-Walker, 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.

SELECTION OF VICE CHAIR

A nomination was made to select Hon. Margaret Finlay, City of Duarte, as the Vice-Chair. Nominations closed and a roll call vote was taken whereby the Committee selected Hon. Finlay as its Vice-Chair.

Audit Committee
of the
Southern California Association of Governments

May 14, 2013

Minutes

CONSENT CALENDAR

Approval Items

1. Minutes of March 5, 2013 Meeting

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

INFORMATION ITEMS

2. Internal Audit Status Report

Richard Howard, Internal Auditor, provided an update of the pre-award contract audits. He noted that the preaward audit completed for System Metrics Group resulted in reduction of the contract due to questioned costs of \$1,588; this was an error in the labor escalation cost for one of the subconsultants. The contract was subsequently reduced by the amount questioned.

3. Fraud Risk and Internal Control Update

Basil Panas, Chief Financial Officer, provided information regarding SCAG's fraud risk and its internal controls that are currently in place to prevent fraud, waste and non-compliance. He discussed the historical background of the Accounting Best Practice Task Force recommendations of 1999, and the subsequent audit conducted by Caltrans. As noted, as a result of the audits and Best Practice Study, many of SCAG's internal controls and procedures were strengthened, particularly in areas of the accounting system and in SCAG's contracting and procurement policies and procedures. In addition, there were two (2) recommendations from the Task Force which were made part of the accountability and improvements for the efficiency of SCAG's operations: the creation of the Audit Committee and the creation of an Internal Audit function.

Mr. Panas discussed key internal controls, including SCAG's Ethics Hot Line which was established in 2009. Mr. Panas commented on the "Fraud Risk Self-Assessment Tool" (Tool), which was included in the agenda packet. He noted that the "Tool" which was completed by staff reflected a total score of 80 after two additional controls were implemented. It was noted that any score over 50 indicated strong internal controls and a reduced risk of fraud for the agency.

Debbie Dillon, Deputy Executive Director, Administration, discussed SCAG's sole ethics violation, which was reported in April 2011 by the Chief Counsel. She noted that the incident related to an unintentional error in judgment by staff that related to an oversight of a complex consulting contract. The incident was investigated and completed by an outside independent investigator who determined it as violation of the Ethics Policy though minor in nature. There was no waste, fraud, abuse or embezzlement related to the violation. Appropriate action was taken and the matter is considered closed.

Audit Committee
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Southern California Association of Governments

May 14, 2013

Minutes

4. Ethics Hotline Communication Policy

Debbie Dillon, Deputy Executive Director, Administration, provided an overview of SCAG'S Ethics Policy and Ethics Hotline, which was requested by the Committee at the March 5, 2013 meeting.

Hon. Finlay inquired as to the specifics concerning the "cash flow problems" in 1999 that caused an independent management review of SCAG's financial, and program management procedures. And, how the internal and external audits relate to SCAG's grant processing and procedures.

Hasan Ikhata, Executive Director, responded to Hon. Finlay's question. It was noted that poor fiscal management in 1999 was responsible for the independent management review and the Caltrans audit that designated SCAG as a "high risk recipient" of state and federal funds. In reference to the protocols required for grant processing and receipts, Joann Africa, Chief Counsel, noted that the federal and state audits of SCAG's operations are permissible actions under the agency's Master Fund Transfer Agreement, and that annually, staff must certify compliance with applicable laws and regulations in order to receive planning and other grants. Debbie Dillon assured the Committee that stronger internal controls and key policies and procedures created from the Best Practices study have been implemented and in effect for several years.

Hon. Cheryl Viegas Walker, Chair, concluded the discussion. She reminded the committee members to send any additional comments regarding additional input to SCAG's Internal Control Systems (starting on page 9 of the agenda packet) to staff so they may be incorporated and presented at the next Audit Committee meeting for approval.

5. Risk Assessment Audit Planning

Richard Howard, Internal Auditor, in anticipation of preparing for the next audit workplan activities, presented a Risk Assessment Input Form which outlined the internal audit workplan priorities for the next fiscal year. He noted that the Committee members will receive a formal electronic version of the Risk Assessment Input Form with applicable instructions. Mr. Howard requested the input form to be completed and returned via email by June 1, 2013.

6. IT Audit Update Report

Catherine Chavez, Chief Information Officer, reported the progress of the remaining two (2) Information Technology (IT) action items recommended for improvement by the IT Audit conducted in FY 2011: *IT Strategic Plan, and Business Contingency Planning*. To date, seven (7) of the nine (9) recommendations have been completed.

Ms. Chavez noted that the first draft each of the IT Strategic Plan, and the Business Contingency Plan, which will include the SCAG Disaster Recovery (DR) Runbook, is in process. SCAG's Business Resumption (BR) Plan, including roles/responsibilities, and communications, is currently being updated by SCAG's Risk Management Committee. All of the plans will be

Audit Committee
of the
Southern California Association of Governments

May 14, 2013

Minutes

submitted to the IT Steering Committee for approval by July 21, 2013. Testing of both the DR and BR plans will be completed by August 31, 2013.

Hon. Viegas-Walker, asked staff to distribute to the members the functional working titles of the individuals assigned to the IT Steering and Risk Management Committees, as well as the titles of any external resource, including the California Joint Powers Insurance Authority (JPJA).

STAFF REPORT

None was presented.

FUTURE AGENDA ITEMS

- SCAG'S Internal Control System for approval
- FY14 Internal Audit Workplan

ANNOUNCEMENTS

No Announcements were made.

ADJOURNMENT

Hon. Cheryl Viegas-Walker, Chair, adjourned the meeting at 10:50 a.m. The next regular meeting of the Audit Committee will be determined at a later date.

Minutes Approved by:



Basil Panas, Chief Financial Officer
Staff to the Audit Committee

REPORT

DATE: December 4, 2013

TO: Audit Committee

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

SUBJECT: Approval of Internal Control System

RECOMMENDED ACTION:

Approve the Internal Control System.

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 June 20, 2011 Audit Committee meeting, we distributed a copy of the SCAG Internal Control System (Attached) and at the last Audit Committee meeting May 14, 2013 we sent another copy for your review and, at this meeting, your approval. This System was prepared in accordance with the guidelines from the Committee of Sponsoring Organizations (The Treadway Commission) which was established in 1992 to set up a uniform system of internal controls. Please note that, as shown on Page 2 of the System, SCAG has a number of key internal controls, such as the Ethics Policy, Conflict-of-Interest Policy, Travel Policy, Accounting Manual, etc. in place. Most of these policies have been in effect for several years.

In addition, SCAG established an Ethics Hot Line in 2009 for anonymous reporting of any behavior that might be illegal, unethical or violate SCAG policy.

Your approval of the Internal Control System is now requested.

FISCAL IMPACT:

None.

ATTACHMENT:

SCAG Internal Control System

**SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS
(SCAG)
INTERNAL CONTROL SYSTEM**

December 4, 2013

SCAG Management is responsible for the Internal Control System.
The Regional Council's role is one of oversight.

The objectives of Internal Controls are reasonable assurance that the following are achieved:

- Effectiveness & Efficiency of Operations;
- Reliability of Financial Reporting;
- Compliance with Applicable Laws & Regulations.

MONITORING

Is designed to ensure that Internal Controls continue to operate effectively.

STEPS IN MONITORING

A. ESTABLISH A FOUNDATION FOR MONITORING

1. Control Environment

Tone at the Top

Management must communicate expectations

- Strategic Direction
- Code of Ethics

2. Effective Organizational Structure

- Management implements and monitors Internal Control system.
- Regional Council receives information from internal and external auditors, as well as from Management.

Baseline Understanding of Internal Control effectiveness

- Ongoing monitoring to validate that controls are effective.

B. DESIGN AND EXECUTE MONITORING PROCEDURES

1. Risk Monitoring and Assessment

Prioritize Risks

- Analyze the objectives of SCAG.
- Determine what risks could have a meaningful effect on achieving those objectives.

2. Identify Key Controls

- Management Philosophy;
- Ethics Policy;
- Conflict-of-Interest Policy;
- Accounting Manual;
- Procurement Manual;
- Payroll and Timekeeping Procedures;
- Project Manager's Manual;
- Travel Policy;
- Segregation of Duties;
- Local Assistance Procedures Manual;
- Federal Acquisition Regulations (FAR);
- 2 CFR Part 225-Cost Principles for State, Local and Indian Tribal Governments (OMB Circular A-87);
- 49 CFR Part 18-Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments;
- Master Fund Transfer Agreement;
- Federal Transit Administration Circulars.

3. Identify Persuasive Information

Suitable information must be:

- Relevant;
- Reliable;
- Timely.

Direct information: Obtained by observing controls in operation.

Indirect information: All other information that may indicate a control failure, such as operating statistics, key performance indicators, etc.

4. Implement Monitoring Procedures

Ongoing

- Built into the routine, recurring operations of SCAG.

Separate

- Evaluate controls periodically, e.g., sample contracts for compliance.

C. ASSESS AND REPORT RESULTS

1. Prioritize and Communicate Results

- Significance of errors, high to low.

2. Report Internally

- Depends on the risk and the purpose of the monitoring. Examples are audits of travel expenses or reconciliation of fixed asset records to physical assets.
- Internal Audit reports are a key resource.

3. Report Externally

- Reports to external parties regarding the effectiveness of internal controls (Annual audit, Federal & State audits).

REPORT

DATE: December 4, 2013
TO: AUDIT COMMITTEE
FROM: Basil Panas, Chief Financial Officer, (213 0236-1817), panas@scag.ca.gov
SUBJECT: ACTUARIAL REPORT AS OF JUNE 30, 2013, FOR OTHER POST EMPLOYMENT BENEFITS

RECOMMENDED ACTION:

For Information Only – No Action Required.

EXECUTIVE SUMMARY:

SCAG's outside independent actuary, Marilyn Jones from Nyhart Epler, will present her actuarial report prepared as of June 30, 2013, for SCAG's Other Post-Employment Benefits (OPEB).

STRATEGIC PLAN:

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

BACKGROUND:

SCAG is required by the California Employers' Retirement Benefit Trust (CERBT), of which SCAG is a member, to obtain a biennial actuarial study of its OPEB. The previous study was performed as of June 30, 2011 by John Bartel of Bartel & Associates, LLC.

FISCAL IMPACT:

The Actuarial Required Contribution for FY 2014/2015 will be \$902,369 and for FY 2015/2016 it will be \$929,440.

ATTACHMENT:

Summary of actuarial report as of June 30, 2013

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DRAFT

October 31, 2013

PRIVATE

Mr. Basil Panas
Chief Financial Officer
SCAG
818 West Seventh St., 12th Floor
Los Angeles, CA 90017

Re: GASB Actuarial Valuation

Dear Mr. Panas:

We are presenting our report of the June 30, 2013 actuarial valuation conducted on behalf of Southern California Association of Governments (SCAG) for its retiree health program.

The purpose of the valuation is to measure SCAG's liability for retiree health benefits and to determine SCAG's accounting requirements under the Government Accounting Standard Board Statements No. 43 & 45 (GASB 43 & 45) in regard to unfunded liabilities for retiree health benefits. The objective of GASB 45 is to improve the information in the financial reports of government entities regarding their post-employment benefits (OPEB) including retiree health benefits. The objective of GASB 43 is to establish uniform reporting for funded OPEB Plans.

Nyhart Epler is the San Diego office of the Nyhart Company, an employee owned actuarial, benefits and compensation consulting firm specializing in group health and retiree health and qualified pension plan valuations. We have set forth the results of our study in this report.

We have enjoyed working on this assignment and are available to answer any questions.

Sincerely,
NYHART EPLER

Marilyn K Jones, ASA, MAAA, EA, FCA
Consulting Actuary

MKJ:rl
Enclosure

As required by U.S. Treasury Regulations governing tax practice, IRS Circular 230 Tax Advice Disclaimer, you are hereby advised that any written tax advice contained herein was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the U.S. Internal Revenue Code.

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Southern California Association of Governments

Actuarial Valuation Retiree Health Program As of June 30, 2013

October 2013

Prepared By:
Nyhart Epler
450 B Street, Suite 750
San Diego, CA 92101-8002
(619) 239-0831
www.nyhart.com

Indianapolis · Chicago · Kansas City · Atlanta · St. Louis · San Diego

An Alliance Benefit Group Licensee

DRAFT

**Southern California Association of Governments
Actuarial Valuation
Retiree Health Program
As of June 30, 2013**

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SECTION I. EXECUTIVE SUMMARY

Background

Southern California Association of Governments (SCAG) selected Nyhart Epler to perform an updated actuarial valuation of its retiree health program as of June 30, 2013. The purpose of the actuarial valuation is to measure SCAG's liability for retiree health benefits and to estimate SCAG's accounting requirements for other post-employment benefits (OPEB) under Governmental Accounting Standards Board Statements No. 43 & 45 (GASB 43 and GASB 45). GASB 45 requires accrual accounting for the expensing of OPEB. The expense is generally accrued over the working career of employees, rather than on a pay-as-you-go basis. GASB 43 requires additional financial disclosure requirements for funded OPEB Plans.

SCAG currently provides retiree health benefits through the CalPERS Health Program to approximately 126 active and 101 retired employees. SCAG provides a contribution equal to a monthly dollar maximum (currently \$550) to eligible retirees. Eligibility for this contribution requires that an employee retire from SCAG and PERS on or after age 50 with at least 5 years of PERS credited service. The monthly maximum has not increased since it was implemented in 2002. Future increases in the monthly dollar maximum are at the discretion of SCAG. In future years, if the CalPERS minimum required contribution exceeds the \$550 contribution, the minimum required contribution will be provided to eligible retirees. The retiree can elect coverage for their eligible dependents and pay the additional costs. Section IV of the report details the plan provisions that were included in the valuation and the current premium costs for coverage.

Results of the Retiree Health Valuation

The amount of the actuarial liability for SCAG's retiree health benefits program as of June 30, 2013, the measurement date, is \$10,068,229. This amount represents the present value of all contributions projected to be paid by SCAG for current and future retirees. If SCAG were to place this amount in a fund earning interest at the rate of 7.0% per year, and all other actuarial assumptions were exactly met, the fund would have exactly enough to pay all expected benefits. This includes benefits for the current retirees as well as the current active employees expected to retire in the future. The valuation does not consider employees not yet hired as of the valuation date.

If the amount of the actuarial liability is apportioned into past service, current service and future service components; the past service component (actuarial accrued liability) is \$8,326,403, the current service component (normal cost or current year accrual) is \$223,922 and the future service component (not yet accrued liability) is \$1,517,904.

Changes from Prior Valuation

The valuation reflects census and healthcare cost information. There were no plan changes since the prior valuation. There were several assumption changes as noted in Section VI including increases to the initial medical trend rates applicable to future healthcare costs and changes to the spousal election to reflect recent experience. A reconciliation of the approximate change in the liability from the prior valuation is provided in the following table.

| | |
|---|-------------------------|
| June 30, 2011 Valuation @ 7.0% | \$ 9.77 Million |
| Increases due to passage of time | 0.28 Million |
| Increase due to net experience gain | 0.02 Million |
| Increase due to new entrants | 0.32 Million |
| Decrease due to change in Medical Trend Rates | (0.14) Million |
| Decrease due to Spousal Election decrease from 80% to 50% | (0.18) Million |
| June 30, 2013 Valuation @ 7.0% | \$ 10.07 Million |

Annual Required Contribution

SCAG's annual required contribution (accrual expense) for the 2014/2015 fiscal year is \$902,369 or 7.9% of pay. The annual required contribution is comprised of the present value of benefits accruing in the current fiscal year (normal cost with interest) plus a 13-year amortization (on a level-percentage-of-pay basis) of the unfunded actuarial accrued liability. Thus, it represents a means to expense the plan's liabilities in an orderly manner. The change in the net OPEB obligation/(asset) at the end of the 2014/2015 fiscal year will reflect any actual contributions made by SCAG during the period for retiree health benefits including any pre-funding amounts.

Funding

SCAG's funding policy is to fund 100% of the annual required contribution as determined under GASB 45 through the California Employers' Retiree Benefit Trust (CERBT). The market value of assets in CERBT as of June 30, 2013 is \$2,329,525. The actuarial value of assets at June 30, 2013 is \$2,253,854. The actuarial value of asset method phases gains and losses in over four years subject to a 20% corridor around the market value of assets. The unfunded actuarial accrued liability at June 30, 2013 is \$6,072,549. The funded ratio is 27% on an actuarial value of assets basis and 28% on a market value of asset basis.

The CERBT provides participating employers with the choice of three investment allocation strategies. The expected rate of return of assets is dependent on the funding strategy of a participating employer and which investment allocation strategy is selected. For employers fully funding their annual required contribution, strategy 1 has a CERBT published median yield of 7.61%, strategy 2 has a published median yield of 7.06% and strategy 3 has a published median yield of 6.39%. The valuation was performed using a 7.0% discount rate assuming SCAG remains in strategy 1 for the 2014/2015 and 2015/2016 fiscal years and assumes an additional margin for adverse deviation of 0.61% applied to the CERBT stated median discount rate.

Actuarial Basis

The actuarial valuation is based on the assumptions and methods outlined in Section VI of the report. To the extent that a single or a combination of assumptions is not met the future liability may fluctuate significantly from its current measurement. As an example, the healthcare cost increase anticipates that the rate of increase in medical cost will be at moderate levels and decline over several years. Increases higher than assumed would bring larger liabilities and expensing requirements. A 1% increase in the healthcare trend rate for each future year would increase the annual required contribution by 2%. The impact is mitigated since SCAG has a fixed dollar contribution that is assumed to increase unrelated to healthcare trends in the future. If SCAG were to keep the fixed contribution amount at \$550 for all future years the annual required contribution would decrease by 7%.

Another key assumption used in the valuation is the discount (interest) rate which is based on the expected rate of return of plan assets. The valuation is based on a discount rate of 7.0%. A 0.5% decrease in the discount rate would increase the annual required contribution by 5%. A 0.5% increase in the discount rate would decrease the annual required contribution by 5%.

GASB 45 requires that implicit rate subsidies be considered in the valuation of medical costs. An implicit rate subsidy occurs when the rates for retirees are the same as for active employees. Since pre-Medicare retirees are typically much older than active employees, their actual medical costs are almost always higher than for active employees. It is our understanding that SCAG participates in a community-rated health plan (CalPERS Health Plan) and is exempt from valuing the implicit rate subsidy. A proposed Actuarial Standard of Practice would require all actuarial valuations to include the implicit rate subsidy in the valuation of health benefits. If adopted, this could lead GASB to eliminate the exemption from including the implicit rate subsidy in community-rated plans for future valuations. Inclusion of the implicit rate subsidy would result in significantly higher liabilities and expense requirements for SCAG.

The valuation is based on the census, plan and rate information provided by SCAG. To the extent that the data provided lacks clarity in interpretation or is missing relevant information, this can result in liabilities different than those presented in the report. Often missing or unclear information is not identified until future valuations.

SECTION II. FINANCIAL RESULTS

A. Valuation Results @ June 30, 2013

The table below presents the employer liabilities associated with SCAG's retiree health benefits program determined in accordance with GASB 43 & 45. The actuarial liability (AL) is the present value of all SCAG's contributions projected to be paid under the program. The actuarial accrued liability (AAL) reflects the amount attributable to the past service of current employees and retirees. The normal cost reflects the accrual attributable for the current period.

| | |
|--------------------------------------|------------------|
| 1. Actuarial Liability (AL) | |
| Actives | \$ 4,206,227 |
| Retirees | <u>5,862,002</u> |
| Total AL | \$10,068,229 |
| 2. Actuarial Accrued Liability (AAL) | |
| Actives | \$ 2,464,401 |
| Retirees | <u>5,862,002</u> |
| Total AAL | \$ 8,326,403 |
| 3. Normal Cost | \$ 223,922 |
| No. of Active Employees | 126 |
| Average Age | 36.2 |
| Average Past Service | 9.3 |
| No. of Retired Employees | 101 |
| Average Age | 68.8 |
| Average Retirement Age | 57.9 |

B. Reconciliation of Market Value of Plan Assets

The reconciliation of Plan Assets for the last two calendar years is presented below:

| | Fiscal Year Ending | | | |
|-------------------------------------|--------------------|------------------|------------------|------------------|
| | <u>6/30/2010</u> | <u>6/30/2011</u> | <u>6/30/2012</u> | <u>6/30/2013</u> |
| 1. Beginning Market Value of Assets | \$ 485,112 | \$ 909,884 | \$1,471,727 | \$1,746,386 |
| 2. Contribution | 355,003 | 312,575 | 264,035 | 370,718 |
| 3. Fund Earnings (gross) | 70,492 | 250,811 | 12,496 | 215,564 |
| 4. Benefit Payments | 0 | 0 | 0 | 0 |
| 5. Administrative Expenses | <u>(723)</u> | <u>(1,543)</u> | <u>(1,872)</u> | <u>(3,143)</u> |
| 6. Ending Market Value of Assets | \$ 909,884 | \$1,471,727 | \$1,746,386 | \$2,329,525 |
| 7. Estimated Rate of Return | 11% | 24% | 1% | 11% |

C. Development of Actuarial Value of Assets

The actuarial value of assets is based on the expected market value appreciation. The actual market appreciation or depreciation, both realized and unrealized, is phased in over four years as the expected growth is phased out. The table below presents the development of the actuarial value of assets.

| | <u>6/30/2010</u> | <u>6/30/2011</u> | <u>6/30/2012</u> | <u>6/30/2013</u> | |
|---|------------------|------------------|------------------|------------------|-------------|
| 1 Market value of assets | | | | | \$2,329,525 |
| 2 Actual gross rate of return | 10.64% | 23.54% | 0.78% | 11.17% | |
| 3 Expected rate of return | 7.75% | 7.75% | 7.00% | 7.00% | |
| 4 Actual fund earnings | \$70,492 | \$250,811 | \$12,496 | \$215,564 | 549,363 |
| 5 Expected fund earnings | 51,325 | 82,568 | 112,197 | 135,112 | 381,202 |
| 6 Gain(loss) [(4) - (5)] | 19,167 | 168,243 | (99,701) | 80,452 | |
| 7 Percent of gain/(loss) recognized 6/30/2013 | 80% | 60% | 40% | 20% | |
| 8 Recognized gain/(loss) [(6) x (7)] | 15,334 | 100,946 | (39,880) | 16,090 | 92,490 |
| 9. Blended value of assets at 6/30/2013 [(1) - (4) + (5) + (8)] | | | | | \$2,253,854 |
| 10. Percent increase/(decrease) of (9) over (1) | | | | | (3.25%) |
| 11. Actuarial value of assets, not more than 120% nor less than 80% of market value | | | | | \$2,253,854 |

D. Development of Unfunded Actuarial Accrued Liability

The table below presents the development of the unfunded actuarial accrued liability. The unfunded actuarial accrued liability (UAAL) is the excess of the actuarial accrued liability (AAL) over the actuarial value of eligible plan assets.

| | |
|--------------------------------------|--------------|
| 1. Actuarial Accrued Liability (AAL) | \$8,326,403 |
| 2. Actuarial Value of Assets | (2,253,854) |
| 3. Unfunded AAL (UAAL) | \$6,072,549 |

E. Amortization of Unfunded Actuarial Accrued Liability

The amortization of the UAAL component of the annual contribution (ARC) is being amortized over a period of 13 years on a level-percentage of pay basis. Under the level-percentage of pay method, the amortization payment is scheduled to increase in future years by assumed payroll increase.

| | |
|-------------------------|-------------|
| 1. Unfunded AAL (UAAL) | \$6,072,549 |
| 2. Amortization Factor | 9.40021 |
| 3. Amortization of UAAL | \$ 646,001 |

F. Annual Required Contribution (ARC)

The table below presents the development of the annual required contribution (ARC) under GASB 45 for the fiscal year ending June 30, 2014 and estimated for the fiscal year ending June 30, 2015.

| | <u>FY2014/2015</u> | <u>FY2015/2016</u> |
|---------------------------------------|--------------------|--------------------|
| 1. Normal Cost at End of Fiscal Year | \$ 256,368 | \$ 264,059 |
| 2. Amortization of UAAL | <u>646,001</u> | <u>665,381</u> |
| 3. Annual Required Contribution | \$ 902,369 | \$ 929,440 |
| 4. Estimated Benefit Eligible Payroll | \$11,441,000 | \$11,784,000 |
| 5. Normal Cost as % of Pay | 2.24% | 2.24% |
| 6. Amortization of UAAL as % of Pay | <u>5.65%</u> | <u>5.65%</u> |

7. ARC as % of Pay 7.89% 7.89%

G. Required Supplementary Information (Funding Progress @June 30, 2013)

The table below presents a sample disclosure of the funding progress as of the beginning of the fiscal year.

| | |
|--|---------------------|
| 1. Actuarial Accrued Liability (AAL) | \$8,326,403 |
| 2. Actuarial Value of Assets (AVA) | <u>(2,253,854)</u> |
| 3. Unfunded Actuarial Accrued Liability (UAAL) | \$ 6,072,549 |
| 4. Funded Ratio | 27% |
| 5. Current Payroll | \$11,108,000 |
| 6. UAAL as Percentage of Covered Payroll | 55% |

H. Sensitivity Analysis:

The impact of a 0.5% decrease or increase in the discount (interest) rate and the impact of assuming no increase in SCAG's monthly maximum contribution on the actuarial liability, actuarial accrued liability, unfunded actuarial accrued liability and the annual required contribution is provided below:

| | Dollar (\$) Increase/ <u>(Decrease)</u> | Percentage (%) Increase/ <u>(Decrease)</u> |
|---|--|--|
| <i>0.5% Decrease in Discount Rate</i> | | |
| - Actuarial Liability | \$ 665,505 | 7% |
| - Actuarial Accrued Liability | \$ 437,652 | 5% |
| - Unfunded Actuarial Accrued Liability | \$ 437,652 | 7% |
| - Annual Required Contribution | \$ 44,640 | 5% |
| <i>0.5% Increase in Discount Rate</i> | | |
| - Actuarial Liability | (\$ 599,258) | (6%) |
| - Actuarial Accrued Liability | (\$ 402,817) | (5%) |
| - Unfunded Actuarial Accrued Liability | (\$ 402,817) | (7%) |
| - Annual Required Contribution | (\$ 41,325) | (5%) |
| <i>No Increase in SCAG's monthly maximum contribution</i> | | |
| - Actuarial Liability | (\$ 594,782) | (6%) |
| - Actuarial Accrued Liability | (\$ 427,171) | (5%) |
| - Unfunded Actuarial Accrued Liability | (\$ 427,171) | (7%) |
| - Annual Required Contribution | (\$ 67,045) | (7%) |

SECTION III. PROJECTED CASH FLOWS

The valuation process includes the projection of the expected benefits and/or contributions to be paid by SCAG under its retiree health benefits program. This expected cash flow takes into account the likelihood of each employee reaching age for eligibility to retire and receive health benefits. The projection is performed by applying the turnover assumption to each active employee for the period between the valuation date and the expected retirement date. Once the employees reach their retirement date, a certain percent are assumed to enter the retiree group each year. Employees already over the latest assumed retirement age as of the valuation date are assumed to retire immediately or at first eligibility, if later. The per capita cost as of the valuation date is projected to increase at the applicable healthcare trend rates both before and after the employee's assumed retirement. The projected per capita costs are multiplied by the number of expected future retirees in a given future year to arrive at the cash flow for that year. Also, a certain number of retirees will leave the group each year due to expected deaths and this group will cease to be included in the cash flow from that point forward. Because this is a closed-group valuation, the number of retirees dying each year will eventually exceed the number of new retirees, and the size of the cash flow will begin to decrease and eventually go to zero.

The expected employer cash flows for selected future years are provided in the following table:

Projected Employer Cash Flows – All Benefit Eligible

| <u>Fiscal Year</u> | <u>Future Retirees</u> | <u>Retired Employees</u> | <u>Total</u> |
|--------------------|------------------------|--------------------------|--------------|
| 2013/14 | \$ 34,276 | \$ 485,006 | \$ 519,282 |
| 2014/15 | \$ 61,562 | \$ 482,715 | \$ 544,277 |
| 2015/16 | \$ 87,374 | \$ 482,691 | \$ 570,065 |
| 2016/17 | \$ 113,924 | \$ 485,007 | \$ 598,931 |
| 2017/18 | \$ 139,817 | \$ 480,314 | \$ 620,131 |
| 2018/19 | \$ 167,349 | \$ 483,860 | \$ 651,209 |
| 2019/20 | \$ 195,489 | \$ 488,063 | \$ 683,552 |
| 2020/21 | \$ 222,604 | \$ 491,199 | \$ 713,803 |
| 2021/22 | \$ 251,258 | \$ 491,540 | \$ 742,798 |
| 2022/23 | \$ 277,256 | \$ 493,315 | \$ 770,571 |
| 2023/24 | \$ 305,287 | \$ 494,560 | \$ 799,847 |
| 2024/25 | \$ 333,893 | \$ 493,613 | \$ 827,506 |
| 2025/26 | \$ 365,398 | \$ 490,668 | \$ 856,066 |
| 2026/27 | \$ 391,263 | \$ 481,758 | \$ 873,021 |
| 2027/28 | \$ 414,297 | \$ 470,437 | \$ 884,734 |
| 2028/29 | \$ 435,574 | \$ 457,433 | \$ 893,007 |
| 2029/30 | \$ 455,536 | \$ 441,184 | \$ 896,720 |
| 2030/31 | \$ 473,094 | \$ 423,828 | \$ 896,922 |
| 2031/32 | \$ 489,584 | \$ 405,434 | \$ 895,018 |
| 2032/33 | \$ 504,244 | \$ 386,027 | \$ 890,271 |
| 2033/34 | \$ 517,109 | \$ 365,809 | \$ 882,918 |
| 2034/35 | \$ 528,346 | \$ 344,777 | \$ 873,123 |
| 2035/36 | \$ 538,092 | \$ 323,183 | \$ 861,275 |
| 2036/37 | \$ 545,495 | \$ 301,205 | \$ 846,700 |
| 2037/38 | \$ 551,450 | \$ 279,023 | \$ 830,473 |
| 2038/39 | \$ 556,080 | \$ 256,853 | \$ 812,933 |
| 2039/40 | \$ 558,771 | \$ 235,015 | \$ 793,786 |
| 2040/41 | \$ 558,687 | \$ 213,655 | \$ 772,342 |
| 2045/46 | \$ 526,364 | \$ 120,377 | \$ 646,741 |
| 2050/51 | \$ 449,753 | \$ 57,592 | \$ 507,345 |
| 2055/56 | \$ 350,305 | \$ 23,451 | \$ 373,756 |
| 2060/61 | \$ 252,414 | \$ 8,775 | \$ 261,189 |
| 2065/66 | \$ 191,917 | \$ 3,887 | \$ 195,804 |
| 2070/71 | \$ 130,264 | \$ 1,408 | \$ 131,672 |
| 2075/76 | \$ 72,623 | \$ 251 | \$ 72,874 |
| 2080/81 | \$ 28,847 | \$ 0 | \$ 28,847 |
| 2085/86 | \$ 6,694 | \$ 0 | \$ 6,694 |
| 2090/91 | \$ 613 | \$ 0 | \$ 613 |
| 2095/96 | \$ 0 | \$ 0 | \$ 0 |

All Years

\$21,244,001

\$13,191,958

\$34,435,959

SECTION IV. BENEFIT PLAN PROVISIONS

This study analyzes the postretirement health benefit plans provided by the SCAG. SCAG provides eligible retirees and their dependents continuation of medical (including prescription drug benefits) coverage. SCAG's financial obligation is as follows:

SCAG provides a fixed dollar amount contribution equal to a maximum of \$550 per month per each eligible retiree. The maximum of \$550 per month is applicable to all family coverage categories and has not been increased since 2002. Any future increases would be at the discretion of SCAG.

In future years, the SCAG contribution may be subject to the CalPERS minimum required employer contribution (\$115 per month in 2013, \$119 per month in 2014 and subject to annual adjustments to reflect Medical Portion of CPI).

Eligibility for the SCAG contribution requires retirement and receipt of pension income under CalPERS while receiving coverage under the CalPERS Health Program. Covered employees who terminate employment with SCAG prior to meeting CalPERS eligibility for retirement (attainment of at least age 50 and at least 5 years of CalPERS credited service) are not eligible for continuation of medical coverage except as provided under COBRA. An eligible retiree can elect to contribute to the cost of continuing spouse and other eligible dependent coverage at retirement. Surviving spouses are eligible for the SCAG contribution upon the death of the retiree.

Premium Rates

SCAG participates in the CalPERS Health Program, a community-rated program for its medical coverage. The following tables summarize the 2013 and 2014 monthly premiums for the primary medical plans in which the retirees are enrolled. In 2014, the CalPERS Health Program will be offering 6 new HMOs plan that could be elected by eligible retirees.

| 2013 Other So. Cal. Region (unless noted) | Kaiser | BS HMO | BS NVP HMO | PERS Care | PERS Choice | PERS Choice OOS |
|--|---------------|-------------------|-----------------------|----------------------|------------------------|--------------------------------|
| Retiree Only | \$558.95 | \$643.93 | \$550.03 | \$992.61 | \$611.30 | \$754.21 |
| Retiree Plus Spouse | \$1,117.90 | \$1,287.86 | \$1,100.06 | \$1,985.22 | \$1,222.60 | \$1,508.42 |
| Retiree Only- Medicare | \$288.37 | \$261.32 | \$261.32 | \$370.43 | \$325.74 | \$325.74 |
| Retiree Plus Spouse – Medicare | \$576.74 | \$522.64 | \$522.64 | \$740.86 | \$651.48 | \$651.48 |

| Continuing Plans 2014 Other So. Cal. Region (unless noted) | Kaiser | BS HMO | BS NVP HMO | PERS Care | PERS Choice | PERS Choice OOS |
|---|---------------|-------------------|-----------------------|----------------------|------------------------|--------------------------------|
| Retiree Only | \$602.79 | \$543.21 | \$457.17 | \$638.22 | \$612.25 | \$706.40 |
| Retiree Plus Spouse | \$1,205.58 | \$1,086.42 | \$914.34 | \$1,276.44 | \$1,224.50 | \$1,412.80 |
| Retiree Only- Medicare | \$294.97 | \$298.21 | \$298.21 | \$327.36 | \$307.23 | \$307.23 |
| Retiree Plus Spouse – Medicare | \$388.65 | \$596.42 | \$596.42 | \$654.72 | \$614.46 | \$614.46 |

| New Plans 2014 Other So. Cal. Region (unless noted) | Sharp HMO | UHC HMO | Anthem HMO Select | Anthem HMO Traditional | Health Net Salud | Health Net Smart Care |
|--|----------------------|--------------------|----------------------------------|---------------------------------------|---------------------------------|--------------------------------------|
| Retiree Only | \$538.59 | \$521.01 | \$536.99 | \$592.20 | \$489.82 | \$568.51 |
| Retiree Plus Spouse | \$1,077.18 | \$1,042.02 | \$1,073.98 | \$1,184.40 | \$979.64 | \$1,137.02 |
| Retiree Only- Medicare | \$306.51 | \$193.33 | \$341.12 | \$341.12 | \$261.24 | \$261.24 |
| Retiree Plus Spouse – Medicare | \$613.02 | \$386.66 | \$682.24 | \$682.24 | \$522.48 | \$522.48 |

00S = Out-of-State

SECTION V. VALUATION DATA

The valuation was based on the census furnished to us by SCAG. The following tables display the age distribution for retirees and the age/service distribution for active employees as of the Measurement Date.

Age Distribution of Eligible Retired Participants & Beneficiaries

| | Covered | Waived | Total |
|-------------------------|----------|----------|-----------|
| <50 | 1 | 0 | 1 |
| 50-54 | 4 | 0 | 4 |
| 55-59 | 5 | 1 | 6 |
| 60-64 | 19 | 2 | 21 |
| 65-69 | 27 | 3 | 30 |
| 70-74 | 16 | 3 | 19 |
| 75-79 | 10 | 0 | 10 |
| 80+ | <u>7</u> | <u>3</u> | <u>10</u> |
| Total: | 89 | 12 | 101 |
| Average Age: | 68.4 | 71.3 | 68.8 |
| Average Retirement Age: | 57.8 | 58.5 | 57.9 |

Age/Service Distribution of All Active Employees

| Age | Service | | | | | | | | | Total |
|--------------------|----------|--------------|----------|----------|----------|----------|----------|----------|----------|----------|
| | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30-34 | 35-39 | 40-44 | |
| 20-24 | 0 | | | | | | | | | 0 |
| 25-29 | 7 | | | | | | | | | 7 |
| 30-34 | 12 | 4 | 1 | | | | | | | 17 |
| 35-39 | 11 | 5 | 2 | | | | | | | 18 |
| 40-44 | 5 | 6 | 5 | 1 | | | | | | 17 |
| 45-49 | 6 | 8 | 4 | 1 | 1 | | | | | 20 |
| 50-54 | 6 | 4 | 2 | 4 | | 3 | 1 | | | 20 |
| 55-59 | 0 | 3 | 2 | 0 | 2 | 1 | 0 | 2 | | 10 |
| 60-64 | 1 | 4 | 1 | 2 | 1 | 1 | 2 | 0 | | 12 |
| 65-69 | 0 | 2 | 0 | 1 | 1 | 0 | 0 | 0 | | 4 |
| 70+ | <u>0</u> | <u>1</u> | <u>0</u> | <u>1</u> |
| Total: | 48 | 37 | 17 | 9 | 5 | 5 | 3 | 2 | 0 | 126 |
| Average Age: | | | 36.2 | | | | | | | |
| Average Service: | | | 9.3 | | | | | | | |
| Estimated Payroll: | | \$11,108,000 | | | | | | | | |

SECTION VI. ACTUARIAL ASSUMPTIONS AND METHODS

The liabilities set forth in this report are based on the actuarial assumptions described in this section.

- Fiscal Year: July 1st to June 30th
- Measurement Date: June 30, 2013
- Fiscal Years Covered: FY2014/2015 and FY2015/2016 (Lagged a year from measurement date)
- Discount Rate: 7.0% per annum. This discount rate assumes SCAG continues to fully fund for its retiree health benefits through the CERBT under Investment Strategy 1 with a 0.61% additional margin for adverse deviation applied to the CERBT stated median discount rate
Sensitivity analysis showing a 0.5% increase or decrease in the discount rate is also provided.
- Inflation: 2.8% per annum
[The prior valuation assumed 3.0%]
- Salary Increases: 3.0% per annum, in aggregate. For cost method purposes the merit increases from the CalPERS pension plan will be use
[The prior valuation assumed 3.25%, in aggregate]
- Pre-retirement Turnover: According to the termination rates under the CalPERS pension plan. Sample rates for Miscellaneous employees are as follows:

| Service | Entry Age | | | |
|---------|-----------|--------|--------|--------|
| | 20 | 30 | 40 | 50 |
| 0 | 17.42% | 16.06% | 14.68% | 13.32% |
| 5 | 8.68% | 7.11% | 5.54% | 0.97% |
| 10 | 6.68% | 5.07% | 0.71% | 0.38% |
| 15 | 5.03% | 3.47% | 0.23% | 0.04% |
| 20 | 3.70% | 0.21% | 0.05% | 0.01% |
| 25 | 2.29% | 0.05% | 0.01% | 0.01% |
| 30 | 0.05% | 0.01% | 0.01% | 0.01% |

Pre-retirement Mortality: According to the pre-retirement mortality rates under the CalPERS pension plan projected fully generational with Scale AA. Sample deaths per 1,000 employees applicable to Miscellaneous employees are as follows:

| Age | Males | Females |
|-----|-------|---------|
| 25 | 0.5 | 0.3 |
| 30 | 0.5 | 0.4 |
| 35 | 0.7 | 0.5 |
| 40 | 0.9 | 0.7 |
| 45 | 1.2 | 0.9 |
| 50 | 1.8 | 1.3 |
| 55 | 2.6 | 1.8 |

| | | |
|----|-----|-----|
| 60 | 4.0 | 2.7 |
|----|-----|-----|

Post-retirement Mortality: According to the post-retirement mortality rates under the CalPERS pension plan projected fully generational with Scale AA. Sample deaths per 1,000 employees applicable to non-disabled retirees are as follows:

| Age | Males | Females |
|-----|-------|---------|
| 55 | 4.7 | 2.4 |
| 60 | 7.2 | 4.3 |
| 65 | 10.7 | 7.8 |
| 70 | 16.8 | 12.4 |
| 75 | 30.8 | 20.7 |
| 80 | 52.7 | 37.5 |
| 85 | 97.8 | 70.1 |
| 90 | 167.5 | 124.0 |

Retirement Rates: According to the retirement rates under the CalPERS pension plan updated to reflect the most recent experience study. The percentage refers to the probability that an active employee who has reached the stated age will retire within the following year. Sample retirement rates for Miscellaneous employees under the 2% at 55 formula are as follows:

| Age | Service at Retirement | | | | |
|-----|-----------------------|--------|--------|--------|--------|
| | 15 | 20 | 25 | 30 | 35 |
| 50 | 2.4% | 2.9% | 3.3% | 3.9% | 4.4% |
| 51 | 2.0% | 2.4% | 2.7% | 3.3% | 3.7% |
| 52 | 2.2% | 2.7% | 3.0% | 3.6% | 4.0% |
| 53 | 2.7% | 3.2% | 3.7% | 4.3% | 4.9% |
| 54 | 4.1% | 4.9% | 5.6% | 6.7% | 7.6% |
| 55 | 7.8% | 9.4% | 10.7% | 12.7% | 14.3% |
| 56 | 6.9% | 8.3% | 9.5% | 11.3% | 12.7% |
| 57 | 7.4% | 9.0% | 10.2% | 12.2% | 13.7% |
| 58 | 8.0% | 9.7% | 11.0% | 13.1% | 14.8% |
| 59 | 9.2% | 11.1% | 12.7% | 15.1% | 16.9% |
| 60 | 11.2% | 13.4% | 15.3% | 18.2% | 20.5% |
| 61 | 13.7% | 16.5% | 18.8% | 22.4% | 25.2% |
| 62 | 19.7% | 23.7% | 27.0% | 32.2% | 36.2% |
| 63 | 19.9% | 23.9% | 27.3% | 32.5% | 36.6% |
| 64 | 18.0% | 21.6% | 24.7% | 29.4% | 33.0% |
| 65 | 26.9% | 32.3% | 36.9% | 43.9% | 49.4% |
| 66 | 20.8% | 25.0% | 28.5% | 34.0% | 38.2% |
| 67 | 20.6% | 24.7% | 28.2% | 33.6% | 37.8% |
| 68 | 18.2% | 21.9% | 25.0% | 29.7% | 33.4% |
| 69 | 17.9% | 21.5% | 24.6% | 29.3% | 32.9% |
| 70 | 21.4% | 25.7% | 29.3% | 34.9% | 39.3% |
| 71 | 14.5% | 17.5% | 20.0% | 23.8% | 26.7% |
| 72 | 16.0% | 19.2% | 22.0% | 26.1% | 29.4% |
| 73 | 12.9% | 15.5% | 17.7% | 21.1% | 23.7% |
| 74 | 10.0% | 12.0% | 13.7% | 16.3% | 18.3% |
| 75 | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Participation Rates: 100% of active employees meeting eligibility requirements are assumed to elect retiree health coverage at retirement. Current retirees are assumed to continue current plan and coverage category except 20% of non-Medicare eligible retirees currently waiving coverage are assumed to elect coverage at Medicare eligibility age.

Spouse Coverage: 50% of future retirees are assumed to elect coverage for their spouse. Female spouses are assumed to be 3 years younger than male spouses. Spouse coverage and spouse age for current retirees is based on actual coverage and actual spouse age.

[The prior valuation assumed future retirees spouse coverage would be based on current coverage as an active employee and 80% for those waiving coverage]

Dependent Coverage: Not explicitly valued.

Medicare Eligibility: 100% unless identified on data as not Medicare eligible.

[The prior valuation made an assumption that 75% of pre-1986 hires and 95% of pre-Medicare retirees are Medicare eligible.]

Claim Cost Development: The valuation was based on the medical premiums paid by SCAG for insurance coverage. SCAG participates in the CalPERS Health Plan, a community rated plan. The valuation assumes SCAG is exempt from the valuation of any medical plan rate subsidy.

Medical Trend Rates: Medical costs are adjusted in future years by the following trends:

| Year | PPO | HMO |
|-------|------|------|
| 2015 | 7.5% | 7.0% |
| 2016 | 7.0% | 6.5% |
| 2017 | 6.5% | 6.0% |
| 2018 | 6.0% | 5.5% |
| 2019 | 5.5% | 5.0% |
| 2020+ | 5.0% | 5.0% |

Minimum Contribution: The CalPERS minimum required employer contribution is assumed to increase 4% per year.

Maximum Contribution: No increase through 2015 and 2% every 3 years, thereafter.

Sensitivity analysis will be provided showing no increase.

Actuarial Cost Method: The actuarial cost method used to determine the allocation of the retiree health actuarial liability to the past (accrued), current and future periods is the Entry Age Normal (EAN) cost method. The EAN cost method is a projected benefit cost method which means the “cost” is based on the projected benefit expected to be paid at retirement.

The EAN normal cost equals the level annual amount of contribution from the employee’s date of hire (entry date) to their retirement date that is sufficient to fund the projected benefit. For plans unrelated to pay, the normal cost is calculated to remain level in dollars; for pay-related plans the normal cost is calculated to remain level as a percentage of pay. SCAG has elected to determine the EAN normal cost as a level percentage of pay. The EAN actuarial accrued liability equals the present value of all future benefits for retired and current employees and their beneficiaries less the portion expected to be funded by future normal costs.

All employees eligible as of the measurement date in accordance with the provisions of the Plan listed in the data provided by SCAG were included in the valuation.

Actuarial Value of Assets: Asset gains and losses recognized over 5 years subject to a corridor equal to a minimum of 80% and a maximum of 120% of the market value of plan assets.

Amortization of UAAL: The unfunded actuarial accrued liability is being amortized over an initial 20 years using the level-percentage-of-pay method on a closed-basis. The remaining amortization period is assumed to be 13 years. Gain/losses have been amortized over 15 years. A fresh start approach over 13 years will be applied for the current valuation.

CalPERS Pension Plan The rates used are from the CalPERS 1997-2007 Experience Study.

SECTION VII. ACTUARIAL CERTIFICATION

The results set forth in this report are based on the actuarial valuation of the retiree health benefits program of SCAG as of June 30, 2013.

The valuation was performed in accordance with generally accepted actuarial principles and practices and in accordance with GASB Statements No. 43 & 45. We relied on census data for active employees and retirees provided to us by SCAG. We also made use of plan information, premium information, and enrollment information provided to us by SCAG.

The assumptions used in performing the valuation, as summarized in this report, and the results based thereupon, represent our best estimate of anticipated experience and actuarial cost of the retiree health benefits program.

I am a member of the American Academy of Actuaries and believe I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Certified by:

Marilyn K. Jones, ASA, EA, MAAA, FCA
Consulting Actuary

Date: _____

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Southern California Association of Governments (SCAG)

June 30, 2013

Updated GASB Actuarial Valuation OPEB Program

**Prepared by
Nyhart Epler**

December 4, 2013

SCAG

OPEB Program: Accounting & Funding Requirements

- **Accounting: GASB 43 & 45 Requires:**
 - Biennial valuation of SCAG's liability for retiree health benefits
 - Accrual accounting versus cash (PAYGO) accounting
 - Disclosure of unfunded accrued liability & funded status
- **Funding: No statutory or regulatory requirement to pre-fund**

SCAG

Purpose of June 30, 2013 Valuation

- Estimate SCAG's Liability and Unfunded Accrued Liability for Retiree Health Benefits
- Determine Fiscal Year 2014/15 & 2015/16 Annual Required Contribution (accrual expense)
 - One year lag in Measurement Date

SCAG

Current Retiree Health Benefits

- SCAG Participates in the CalPERS Health Plan (PEMHCA) for Medical Coverage
- Eligibility: Retirement from SCAG & PERS (generally at least age 50 and at least 5 years of service)
- SCAG's Financial Obligation: Provide fixed contribution to eligible retirees & surviving spouse
 - \$550 per month; not increased since 2002
 - Subject to PEMHCA minimum required contribution (currently \$115 per month, \$119 per month in 2014 & indexed in future years)

SCAG

Background Information

- As of the Valuation Date (6/30/2013):
 - 126 active employees eligible for health benefits
 - 89 retirees currently receiving health benefits (12 waiving coverage)
- 2013/14 Expected Direct Payments for Retiree Health Benefits (Pay-As-You-Go Cost to SCAG) = \$519,282
- Valuation Assumes SCAG Exempt From Valuing Implicit Rate Subsidy as Medical Benefits Provided Through Community-Rated Plan

SCAG

Background Information – Cont.

- Funding: In 2008, SCAG commenced pre-funding retiree health benefits through the CalPERS Employers' Retiree Benefit Trust (CERBT)
 - Investment strategy 1
 - Median discount rate 7.61%; using 60th percentile 7.0%
- Reported Market Value of Assets June 30, 2013 = \$2,329,525
 - Contributions to CERBT since joining = \$1,856,932
 - Earnings since joining = \$480,197
 - CERBT Expenses since joining = (\$7,604)
- Actuarial Value of Assets Under Asset Smoothing Method = \$2,253,854

SCAG

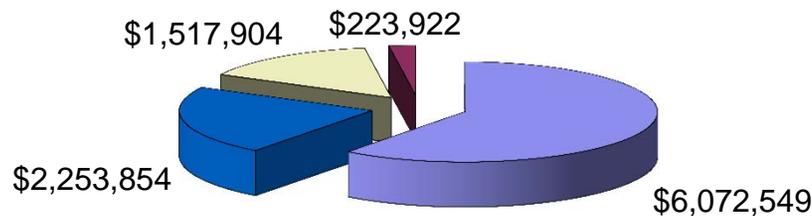
Actuarial Valuation

- Project Retiree Health Contributions Expected to be Paid by SCAG for Future Years (Projected Cash Flows)
 - Demographic assumptions: e.g. mortality, withdrawal, retirement
 - Financial assumptions: e.g. discount (interest rate), healthcare costs, healthcare trend
- Discount Projected Cash Flows to Measurement Date to Determine Present Value of SCAG's Contributions
- Allocate Present Value to Past, Future & Current Period Using Actuarial Cost Method

SCAG

Valuation Results June 30, 2013

Total Projected SCAG Contributions = \$34.4M
Present Value of SCAG Contributions = \$10,068,229
Accrued (Past Service) Liability* = \$8,326,403
\$2,253,854 funded (27%) / \$6,072,549 unfunded
Using 7.0% Discount Rate*



- Accrued (Past Service) Liability - Unfunded Portion
- Accrued (Past Service) Liability - Funded Portion
- Future Service Liability
- Current Year's Benefit Accrual

*Reflects CERBT Pre-funding & Actuarial Value of Assets

SCAG

GASB 45 Accounting Results

- Disclose Unfunded Actuarial Accrued Liability (UAAL) at June 30, 2013 = \$6,072,549
 - \$6,637,000 at June 30, 2011
- Source of Increase in UAAL Since June 30, 2011
 - Expected increase/(decrease) (\$249K)
 - Asset gains on actuarial value basis (\$ 62K)
 - Net experience loss \$ 4K
 - Adjustments to medical trend rates (\$143K)
 - Lowering spouse coverage from 80% to 50% (\$114K)
 - Total (\$564K)

SCAG

GASB 45 Accounting Results

- 2014/15 Fiscal Year Annual Required Contribution (ARC) = \$902,369 (7.9% of Estimated Payroll)
 - Fiscal year benefit accrual* = \$256,368 Plus
 - Amortization (over 13 years) of UAAL = \$646,001
- Expected SCAG Contributions for 2014/15
 - Direct payment for benefits (Pay-As-You-Go) = \$544,277
 - Additional contribution to CERBT= \$358,092
 - Total = \$902,369
- 2015/16 Fiscal Year ARC = \$929,440
- Expected SCAG Contributions for 2015/16
 - Direct payment for benefits (Pay-As-You-Go) = \$570,065
 - Additional contribution to CERBT= \$359,375
 - Total = \$929,440

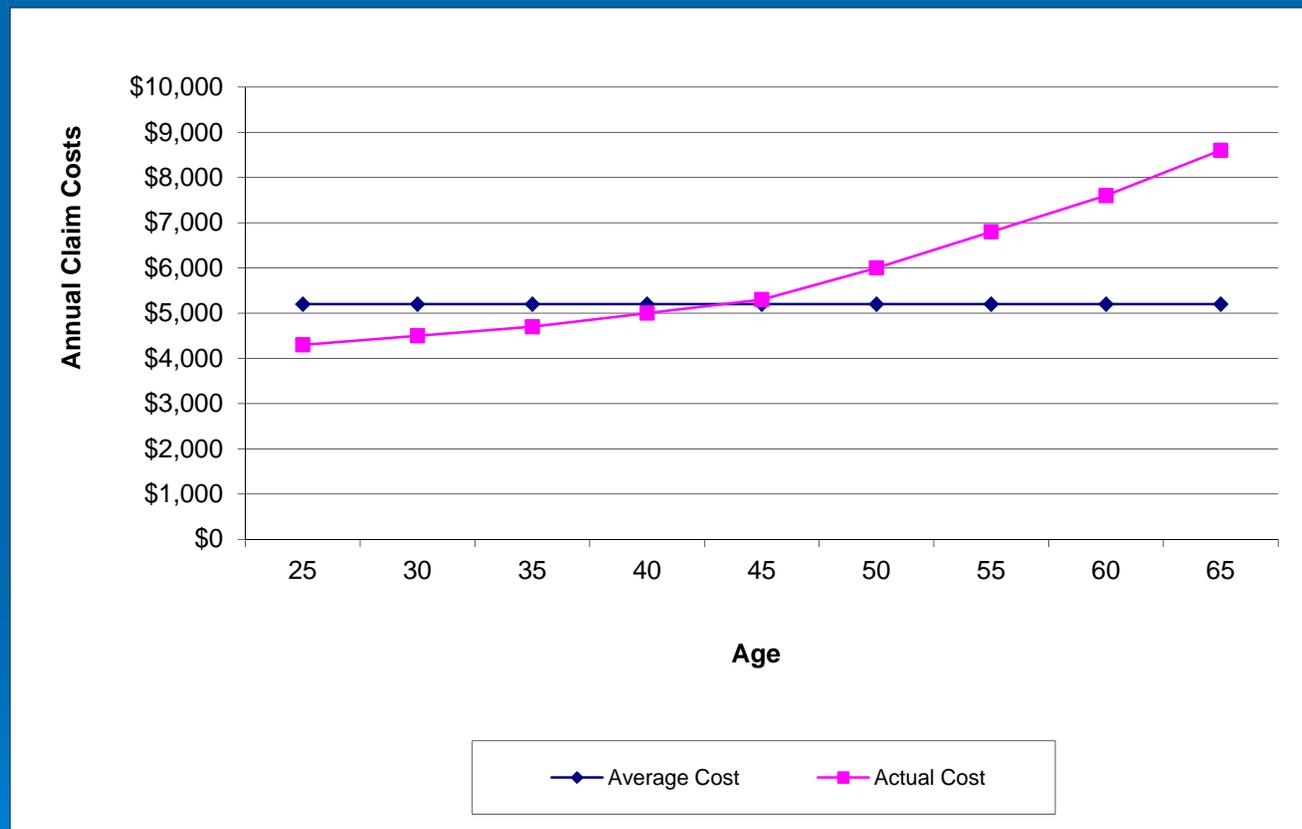
SCAG

OPEB Benefits: Potential Future Accounting Changes

- Impact of ASOP #6
- GASB: Major Tentative Decisions

SCAG

Illustration of Hidden (Rate) Subsidy



Questions



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REPORT

DATE: December 4, 2013
TO: Audit Committee
FROM: Basil Panas, Chief Financial Officer, (213) 236-1817, panas@scag.ca.gov
SUBJECT: FY 2012-13 Preliminary External Financial Audit

RECOMMENDED ACTION:
For Information Only – No Action Required.

EXECUTIVE SUMMARY:
SCAG’s external independent auditor will present the preliminary FY 2012-13 audit report.

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, have completed their audit of SCAG’s FY 2012-13 financial statements. They will present their preliminary audit report to the Committee.

FISCAL IMPACT:
None

ATTACHMENT:
FY 2012-13 Preliminary External Financial Audit

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**SOUTHERN CALIFORNIA
ASSOCIATION of GOVERNMENTS**



Members AICPA Division of Firms ♦ Center for Public Company Audit Firms ♦ Registered with Public Company Accounting Oversight Board
801 S. Grand Avenue, Suite 400, Los Angeles, CA 90017-4646 ♦ Member of the Government Finance Officers Association
♦ (213) 873-1700 ♦ Fax (213) 996-4242 ♦ www.vasquezcpa.com
Contact: Mr. Gilbert Vasquez, CPA ♦ Dated: December 4, 2013

AGENDA

- Vasquez & Company LLP
- The Audit Team
- Key SCAG Personnel - Acknowledgements
- Levels of Assurance and Audit Strategy
- Summary of Audit Results
 - Financial Audit
 - Single Audit
 - SAS 114 Communication

AUDIT TEAM

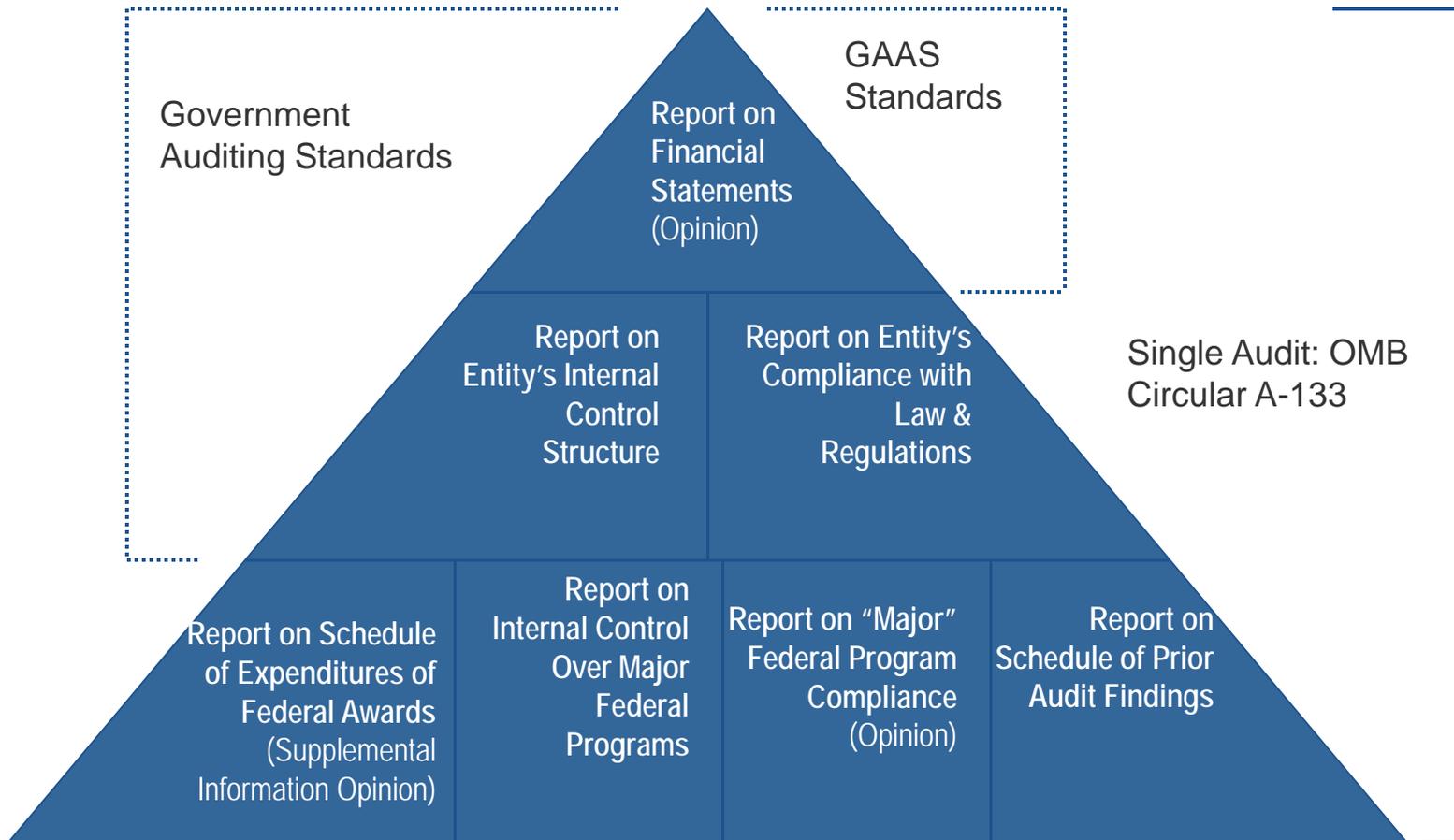
- Gilbert Vasquez, CPA
Managing Partner
- Peggy McBride, CPA
Principal
- Jun Quinto, CPA
Concurring Partner
- Linda Narciso, CPA
Audit Manager
- Susan Garcia, CPA
Audit Supervisor
- Donnavie Munoz
Audit Senior

KEY SCAG PERSONNEL - ACKNOWLEDGEMENTS

- Hasan Ikhata – Executive Director
- Sharon Neely – Chief Deputy Executive Director
- Debbie Dillon – Deputy Executive Director
- Basil Panas – Chief Financial Officer
- Richard Howard – Internal Auditor
- Bernice Villanueva - Budget/Grants Manager
- Leyton Morgan – Contracts Manager
- Rhonda Lawrence – Human Resources Manager
- Catherine Chavez – Chief Information Officer
- Joan Chen and the rest of the Finance team

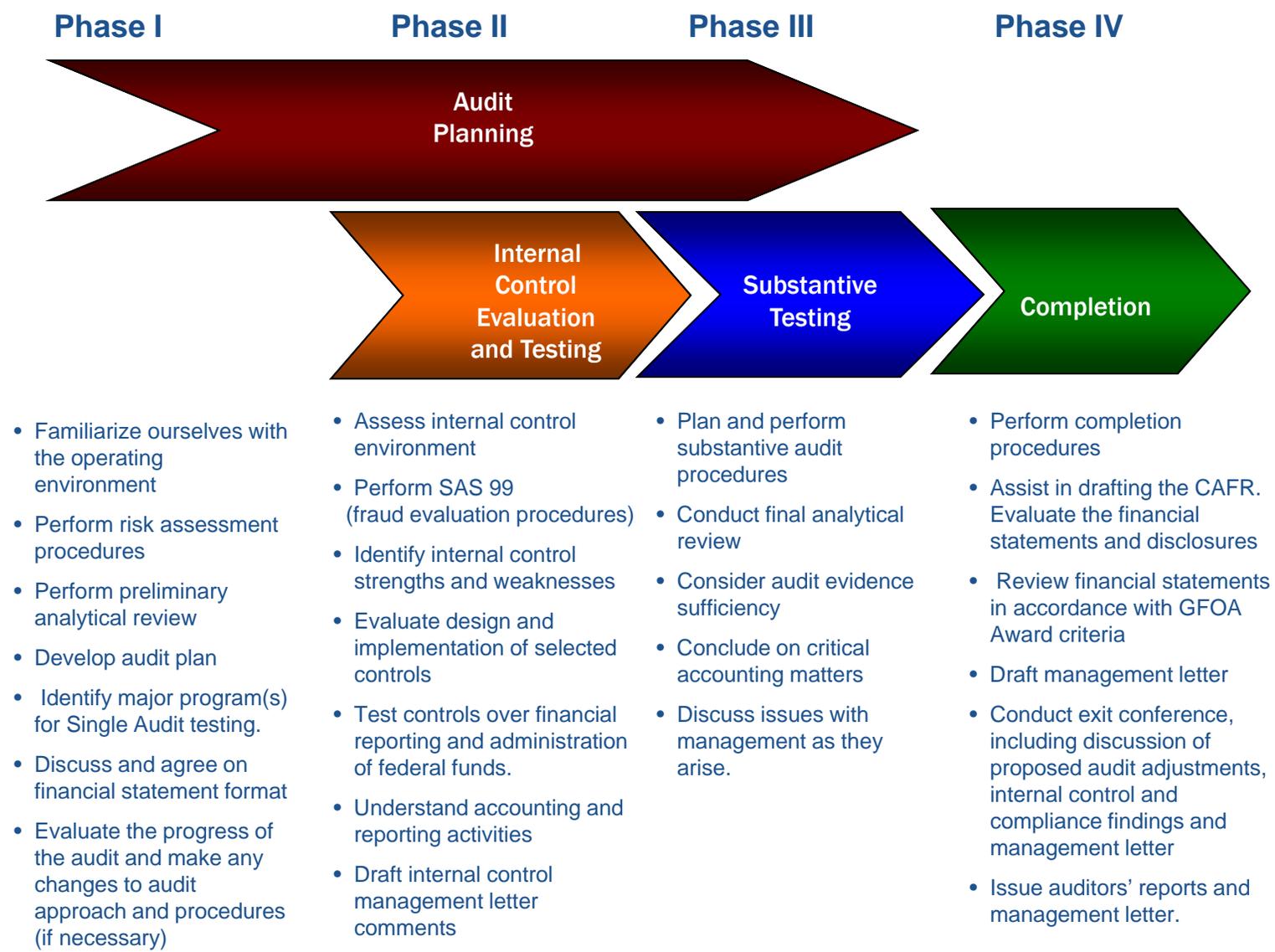
All personnel were cooperative, helpful and professional throughout the audit process.

LEVELS OF ASSURANCE



OUR AUDIT APPROACH

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS CONSULTANTS



Summary of Audit Results

REPORT OF INDEPENDENT AUDITORS

- ❑ Unmodified Opinion - “Clean” Opinion on SCAG’s financial statements
 - Audit performed in accordance with Generally Accepted Government Auditing Standards
 - The financial statements fairly present, in all material respects:
 - The financial position
 - The changes in financial position



AUDIT AREAS OF EMPHASIS

| Audit Focus Area | Findings |
|---|--|
| Cash and cash equivalents | None noted. |
| Revenue, accounts receivable and deferred revenue | None noted. |
| Expenditures and accounts payable | None noted. |
| Capital assets | None noted. |
| Adjusting journal entries | We noted no material adjustments during the FY12/13 audit. |

IDEA (DATA ANALYSIS SOFTWARE)

| Area | Procedures Performed | Findings |
|---|--|-----------------|
| General Ledger Tests | <ul style="list-style-type: none"> ▪ Generated reports listing duplicate journal entries, and journal entries posted on weekends and with rounded amounts. ▪ Reviewed resulting exception reports and investigated material amounts. | None noted. |
| Cash Disbursements/Accounts Payable Tests | <ul style="list-style-type: none"> ▪ Generated reports listing disbursements with rounded amounts, without Purchase Order and posted on weekends. ▪ Reviewed resulting exception reports and investigated material amounts. | None noted. |

IDEA (DATA ANALYSIS SOFTWARE)

| Area | Procedures Performed | Findings |
|-------------|--|----------|
| Procurement | <ul style="list-style-type: none"> ▪ As part of our Single Audit testing on the FTA grant, we selected 4 (out of the 8 contracts funded by FTA) and performed the following: <ol style="list-style-type: none"> 1. Ensured that the RFP/RFQ was prepared and properly authorized. 2. Ensured that the entire Proposal Review Committee signed the non-disclosure/conflict of interest form. 3. Reviewed the Proposal Evaluation Form and Consultant Selection Form/Memo to ensure that the selection process was properly documented. 4. Reviewed the executed contract to ensure that it was signed by the authorized representative of SCAG. | |

IDEA (DATA ANALYSIS SOFTWARE)

| Area | Procedures Performed | Findings |
|-------------------------|---|---------------------|
| Procurement (continued) | <ol style="list-style-type: none"> 5. For contracts \$201k and above, we reviewed the minutes of the Regional Council (RC) to ensure that contracts were approved by RC. For contracts below \$200k, we ensured that a Regional Council report/memo was prepared and submitted to the RC. 6. Ensured that the contractor provided proof of insurance and Debarment and Suspension Certification. We independently verified that the vendors were not suspended or debarred parties. 7. Determined whether proper documentation of time worked was provided by the contractor upon billing. | No exception noted. |

IDEA (DATA ANALYSIS SOFTWARE)

| Area | Procedures Performed | Findings |
|-----------------------------|--|----------|
| <p>Fraud Considerations</p> | <p>1. We inquired with selected management and staff on the following:</p> <ul style="list-style-type: none"> • Their knowledge of any actual fraud or suspicions of fraud. • Their awareness of any allegations of fraud or suspected fraud. • How and to what extent they assess the risk that the financial statements might be materially misstated due to fraud and the controls in place to prevent and detect it. • How management communicates to employees the importance of ethical behavior and appropriate business practices. | |

IDEA (DATA ANALYSIS SOFTWARE)

| Area | Procedures Performed | Findings |
|---|---|---|
| <p>Fraud Considerations (continued)</p> | <ul style="list-style-type: none"> • The processes (programs and controls) for identifying, responding to, and monitoring fraud risks, including any: <ul style="list-style-type: none"> a. Specific fraud risks they have identified or that have been brought to their attention. b. Classes of transactions, account balances, or disclosures for which a fraud risk is likely to exist. | <p>Overall, there is a perception from those interviewed that SCAG has a strong control environment and has policies and procedures in place that would deter, prevent, and detect fraud.</p> <p>Employees are aware of the existence of the fraud hotline or they can report to the Internal Auditor or management when they became aware of fraud and management is receptive to reports of misconducts, including fraud.</p> |

IDEA (DATA ANALYSIS SOFTWARE)

| Area | Procedures Performed | Findings |
|-------------------------------------|--|---|
| Fraud Considerations (continued) | 2. Reviewed the Form 700 (Statements of Economic Interests) of key management. Ensured that the forms were filed on time and checked existence of economic interest with SCAG contractors. 3. Obtained confirmation from selected management to test the existence of related party transactions. | Form 700 were filed timely and no economic interests with SCAG contractors were noted. None noted. |

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE

- ❑ Unmodified Opinion - “Clean” Opinion
 - Audit performed in accordance with Generally Accepted Government Auditing Standards
 - Material weakness and significant deficiencies – none noted
 - Noncompliance material to the financial statements – none noted



SINGLE AUDIT

MAJOR PROGRAM:

CFDA No. 20.505 – Federal Transit Administration Grant
 (32% of Federal Expenditures)

Report of Internal Control Over SCAG’s Major Program

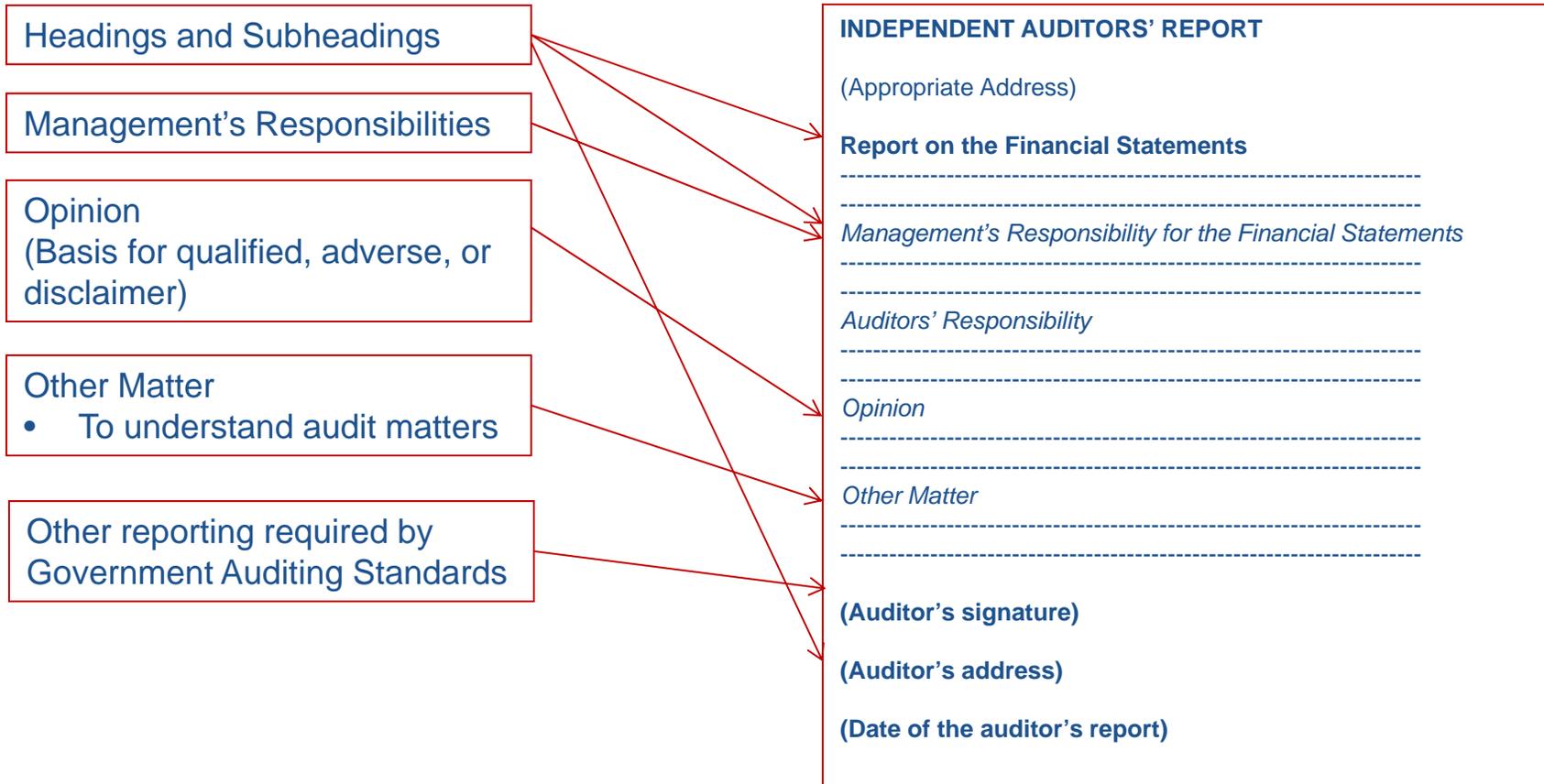
- Material weakness and significant deficiencies – none noted
- Audit findings identified that are required to be reported in accordance with Section 510(a) of OMB A-133 – none

Type of Auditors’ Report Issued on Compliance for SCAG’s major program - unmodified



Financial Statements

AUDITORS' REPORT – NEW FORMAT



AUDITORS' REPORT – NEW FORMAT

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southern California Association of Governments as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Southern California Association of Government's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

AUDITORS' REPORT – NEW FORMAT

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southern California Association of Governments, as of June 30, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages ___ and ___ be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Southern California Association of Government's basic financial statements. The introductory section, supplemental combining financial statements, supplemental schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

AUDITORS' REPORT – NEW FORMAT

The supplemental combining financial statements and supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental combining financial statements and supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2013 on our consideration of the Southern California Association of Governments' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Southern California Association of Governments' internal control over financial reporting and compliance.

[Auditor's signature]

[Auditor's city and state]

GOVERNMENT-WIDE

Statements of Net Position

| | <u>June 30</u> | | <u>Variance</u> | |
|----------------------------------|---------------------|---------------------|---------------------|-------------|
| | <u>2013</u> | <u>2012</u> | <u>Amount</u> | <u>%age</u> |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 6,101,553 | \$ 4,381,760 | \$ 1,719,793 | 39% |
| Receivables: | | | | |
| Federal grants | 7,299,063 | 8,543,176 | (1,244,113) | -15% |
| State grants and contracts | 452,602 | 711,270 | (258,668) | -36% |
| Local grants and contracts | 618,013 | 203,682 | 414,331 | 203% |
| Other | 553,155 | 721,074 | (167,919) | -23% |
| Prepaid assets | 262,658 | 502,200 | (239,542) | -48% |
| Other assets | 13,646 | 13,646 | - | 0% |
| Indirect cost recovery | - | 4,604 | (4,604) | -100% |
| Capital assets, net | 1,954,455 | 1,615,120 | 339,335 | 21% |
| Total assets | <u>17,255,145</u> | <u>16,696,532</u> | <u>558,613</u> | <u>3%</u> |
| LIABILITIES | | | | |
| Accounts and contracts payable | 2,931,234 | 5,188,455 | (2,257,221) | -44% |
| Accrued liabilities | 1,180,729 | 493,209 | 687,520 | 139% |
| Indirect cost recovery | 906,676 | - | 906,676 | #DIV/0! |
| Unearned revenues and advances | 917,952 | 558,091 | 359,861 | 64% |
| Noncurrent liabilities: | | | | |
| Due within one year | 618,394 | 696,619 | (78,225) | -11% |
| Due in more than one year | 1,131,625 | 1,368,696 | (237,071) | -17% |
| Total liabilities | <u>7,686,610</u> | <u>8,305,070</u> | <u>(618,460)</u> | <u>-7%</u> |
| NET POSITION | | | | |
| Net investment in capital assets | 1,954,455 | 1,615,120 | 339,335 | 21% |
| Restricted | 4,408,177 | 3,547,633 | 860,544 | 24% |
| Unrestricted | 3,205,903 | 3,228,709 | (22,806) | -1% |
| Total net position | \$ <u>9,568,535</u> | \$ <u>8,391,462</u> | \$ <u>1,177,073</u> | <u>14%</u> |

GOVERNMENT-WIDE

Statements of Activities

| | <u>Years ended June 30</u> | | <u>Variance</u> | |
|--|----------------------------|---------------------|---------------------|-------------|
| | <u>2013</u> | <u>2012</u> | <u>Amount</u> | <u>%age</u> |
| REVENUES | | | | |
| Charges for services - member dues | \$ 1,779,184 | \$ 1,759,631 | \$ 19,553 | 1% |
| Operating grants and contributions | 33,510,829 | 36,245,424 | (2,734,595) | -8% |
| Interest income | 28,479 | 46,580 | (18,101) | -39% |
| Other income | 278,235 | 406,080 | (127,845) | -31% |
| Total revenues | <u>35,596,727</u> | <u>38,457,715</u> | <u>(2,860,988)</u> | <u>-7%</u> |
| EXPENSES | | | | |
| Transportation | 24,518,174 | 30,615,654 | (6,097,480) | -20% |
| Aviation | 357,539 | 472,799 | (115,260) | -24% |
| Environmental | 320,850 | 2,626,070 | (2,305,220) | -88% |
| High speed rail | 196,200 | 135,882 | 60,318 | 44% |
| Housing | 1,993,419 | 665,008 | 1,328,411 | 200% |
| Sustainability initiatives | 5,473,095 | - | 5,473,095 | #DIV/0! |
| Administration | 1,560,377 | 1,678,605 | (118,228) | -7% |
| Total expenses | <u>34,419,654</u> | <u>36,194,018</u> | <u>(1,774,364)</u> | <u>-5%</u> |
| Changes in net assets | 1,177,073 | 2,263,697 | (1,086,624) | -48% |
| NET POSITION AT BEGINNING OF YEAR | <u>8,391,462</u> | <u>6,127,765</u> | <u>2,263,697</u> | <u>37%</u> |
| NET POSITION AT END OF YEAR | <u>\$ 9,568,535</u> | <u>\$ 8,391,462</u> | <u>\$ 1,177,073</u> | <u>14%</u> |

GOVERNMENTAL FUNDS – GENERAL FUND

Balance Sheets

| | June 30 | | Variance | |
|--|---------------------|---------------------|---------------------|-------------|
| | 2013 | 2012 | Amount | %age |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 6,101,553 | \$ 4,381,760 | \$ 1,719,793 | 39% |
| Other receivables | 553,155 | 721,074 | (167,919) | -23% |
| Due from other funds | 1,007,354 | 1,209,645 | (202,291) | -17% |
| Prepaid assets | 262,658 | 502,200 | (239,542) | -48% |
| Other assets | 13,646 | 13,646 | - | 0% |
| Indirect cost recovery | - | 4,604 | (4,604) | -100% |
| Total assets | \$ <u>7,938,366</u> | \$ <u>6,832,929</u> | \$ <u>1,105,437</u> | <u>16%</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE | | | | |
| Liabilities | | | | |
| Accounts and contracts payable | \$ 601,575 | \$ 581,842 | \$ 19,733 | 3% |
| Accrued liabilities | 1,180,729 | 493,209 | 687,520 | 139% |
| Indirect cost recovery | 906,676 | - | 906,676 | #DIV/0! |
| Deferred revenues | 293,464 | 463,854 | (170,390) | -37% |
| Total liabilities | <u>2,982,444</u> | <u>1,538,905</u> | <u>1,443,539</u> | <u>94%</u> |
| Deferred inflows of resources | | | | |
| Unavailable revenue | 147,196 | 347,274 | (200,078) | -58% |
| Total deferred inflows of resources | <u>147,196</u> | <u>347,274</u> | <u>(200,078)</u> | <u>-58%</u> |
| Fund balances | | | | |
| Nonspendable for: | | | | |
| Prepaid assets | 262,658 | 502,200 | (239,542) | -48% |
| Unassigned | 4,546,068 | 4,444,550 | 101,518 | 2% |
| Total fund balances | <u>4,808,726</u> | <u>4,946,750</u> | <u>(138,024)</u> | <u>-3%</u> |
| Total liabilities, deferred inflows of resources and fund balances | \$ <u>7,938,366</u> | \$ <u>6,832,929</u> | \$ <u>1,105,437</u> | <u>16%</u> |

GOVERNMENTAL FUNDS – GENERAL FUND

Statements of Revenues, Expenditures, and Changes in fund Balances

| | Year ended June 30 | | Variance | |
|--|---------------------|---------------------|---------------------|--------------|
| | 2013 | 2012 | Amount | %age |
| REVENUES | | | | |
| Membership assessments | | | | |
| Cities | \$ 1,393,242 | \$ 1,373,766 | \$ 19,476 | 1% |
| Counties | 290,942 | 290,865 | 77 | 0% |
| Commission | 95,000 | 95,000 | - | 0% |
| General assembly | 236,247 | 194,000 | 42,247 | 22% |
| Interest and other | 70,467 | 537,702 | (467,235) | -87% |
| Total revenues | <u>2,085,898</u> | <u>2,491,333</u> | <u>(405,435)</u> | <u>-16%</u> |
| EXPENDITURES: | | | | |
| Transportation | 10,813,814 | 10,451,638 | 362,176 | 3% |
| Housing | 182,295 | - | 182,295 | #DIV/0! |
| Administration | 1,646,163 | 1,727,671 | (81,508) | -5% |
| Capital outlay | 496,151 | 143,923 | 352,228 | 245% |
| Total expenditures | <u>13,138,423</u> | <u>12,323,232</u> | <u>815,191</u> | <u>7%</u> |
| Deficiency of revenue over expenditures | (11,052,525) | (9,831,899) | (1,220,626) | 12% |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 10,951,088 | 10,135,985 | 815,103 | 8% |
| Transfers out | (36,587) | (32,829) | (3,758) | 11% |
| Net change in fund balance | <u>(138,024)</u> | <u>271,257</u> | <u>(409,281)</u> | <u>-151%</u> |
| FUND BALANCE AT BEGINNING OF YEAR | <u>4,946,750</u> | <u>4,675,493</u> | <u>271,257</u> | <u>6%</u> |
| FUND BALANCE AT END OF YEAR | <u>\$ 4,808,726</u> | <u>\$ 4,946,750</u> | <u>\$ (138,024)</u> | <u>-3%</u> |

SAS 114 – Auditors' Required Communication to Those Charged with Governance

REQUIRED COMMUNICATIONS

- Management has primary responsibility for the accounting principles used, including their consistency, application, clarity and completeness.
- We are not aware of any consultations by management with other accountants about accounting or auditing matters.
- We did not encounter any difficulties with management while performing our audit procedures that require the attention of the Audit Committee and the Regional Council.
- We encountered no disagreements with management on financial accounting and reporting matters as it relates to the current year financial statements.
- SCAG's significant accounting policies are appropriate, and management has applied its policies consistently with prior periods in all material respects. During the year, SCAG implemented GASB 63 and 65 which resulted in certain changes in the financial statements presentation.
- No significant or unusual transactions or accounting policies in controversial or emerging areas for which there is lack of authoritative guidance or consensus were identified.
- There were no material audit adjustments made during the year.

REQUIRED COMMUNICATIONS

- No significant issues were discussed, or subject to correspondence, with management prior to retention.
- No significant deficiencies or material weaknesses were identified.
- No irregularities, fraud or illegal acts or that would cause a material misstatement of the financial statements, came to our attention as a result of our audit procedures.
- SCAG will provide us with a signed copy of the management representation letter.

QUESTIONS?

THANK YOU!

REPORT

DATE: December 4, 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 on May 14, 2013, four (4) pre-award audits of contract proposals were completed.

The four (4) consist of the following:

1. Parsons Brinckerhoff \$948,437
2. Caliper Corporation \$323,054
3. AgreeYa Solutions, Inc. \$445,825
4. Novanis \$842,080

In addition, a review of employee travel expenses was begun in June. The review involved checking compliance with federal, state and SCAG travel regulations and policies. The review is ongoing and started with the employees who incurred the highest travel expenses. Since the beginning of June, 242 hours have been spent in reviewing travel records in response to public records requests.

On May 15, 2013 a Risk Assessment Input Form was sent to the Audit Committee members. The Audit Committee was asked to rate various risk areas as High Risk, Moderate or Low. Additionally, the Form was sent to Executive Management for their input. Responses from both groups were used to establish a plan to direct audit resources. The areas rated as the highest risks are Project Management, Information Services/Technology, Contract/Vendor Monitoring and Business Continuity/Recovery Planning. Audit programs have been developed for Project Management and Information Services/Technology. Audit programs for the other two areas are under development and should be ready by April 2014.

In October I was part of a four-person team sent by the Association of Local Government Auditors (ALGA) to perform a peer review of the City Auditor's Office, City of Houston, Texas. This was my first peer review. It was very informative and helpful in understanding what is done in a peer review and in preparing for a peer review of SCAG's Internal Audit function.

REPORT

It was evident that significant resources will need to be devoted to getting our Internal Audit function ready. For example, there are 77 Government Audit Standards, each of which requires documentation that the auditing entity being reviewed meets those standards for each audit it performed during the period under review. This will require reviewing the audit workpapers for each audit and ensuring that there is adequate supporting documentation.

FISCAL IMPACT:

None.

ATTACHMENTS:

None.

REPORT

DATE: December 4, 2013
TO: Audit Committee
FROM: Catherine Kirschbaum, CIO, 213-236-1973, kirschbaum@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. In this period, one additional item, the IT Strategic Plan, has been completed. The approved plan is being used in the FY15 budget preparation process. Status on the one remaining item:

Item 7 – **Business Contingency Planning.** Staff developed a list of Recovery Time Objectives (RTOs) for the SCAG Disaster Recovery (DR) Runbook being developed by Allied Digital, SCAG’s IT outsource provider. There was a delay in fully migrating the main file server to the Las Vegas colocation center due to a storage size limitation in the previous version of the recovery software. That software has been upgraded and the failover systems and written recovery plan will be completed by February 2014.

Staff has successfully completed internal testing of the new emergency notification system, Blackboard Connect. The system is being prepared for a test of notifications to RC and Committee members. On Audit Committee’s approval, the Audit Committee will be the first group to receive a test SCAG emergency notification by phone, text message and email.

SCAG’s Risk Management Committee reviewed a draft SCAG Business Resumption Plan including roles/responsibilities and communications plan. The updated draft will be presented to the IT Steering Committee on December 9th for review and approval. Upon approval, it will be immediately distributed to staff and covered at the All Staff meeting with periodic reminders to staff. We also plan to have periodic tests of the plan including simulation of a disaster to ensure the plan is working effectively.

FISCAL IMPACT: None.

ATTACHMENT: None.