



## REVISED - Addition of Teleconference Location

SOUTHERN CALIFORNIA  
ASSOCIATION OF GOVERNMENTS  
900 Wilshire Blvd., Ste. 1700  
Los Angeles, CA 90017  
T: (213) 236-1800  
www.scag.ca.gov

### REGIONAL COUNCIL OFFICERS

President  
**Curt Hagman**  
County of San Bernardino

First Vice President  
**Cindy Allen, Long Beach**

Second Vice President  
**Ray Marquez, Chino Hills**

Immediate Past President  
**Jan C. Harnik, Riverside County  
Transportation Commission**

### COMMITTEE CHAIRS

Executive/Administration  
**Curt Hagman**  
County of San Bernardino

Community, Economic &  
Human Development  
**David J. Shapiro, Calabasas**

Energy & Environment  
**Jenny Crosswhite, Santa Paula**

Transportation  
**Tim Sandoval, Pomona**

## MEETING OF THE

# AUDIT COMMITTEE

***Members of the Public are Welcome to Attend  
In-Person & Remotely***

***Tuesday, April 22, 2025  
1:00 p.m. – 2:00 p.m.***

### ***To Attend In-Person:***

**SCAG Main Office – Policy B Meeting Room  
900 Wilshire Blvd., Ste. 1700  
Los Angeles, CA 90017**

### ***To Attend and Participate on Your Computer:***

**<https://scag.zoom.us/j/86206531319>**

### ***To Attend and Participate by Phone:***

**Call-in Number: 1-669-900-6833  
Meeting ID: 862 0653 1319**

### ***PUBLIC ADVISORY***

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

SCAG, in accordance with the Americans with Disabilities Act (ADA), will accommodate persons who require a modification of accommodation to participate in this meeting. SCAG is also committed to helping people with limited proficiency in the English language access the agency's essential public information and services. You can request such assistance by calling (213) 630-1410. We request at least 72 hours (three days) notice to provide reasonable accommodations and will make every effort to arrange for assistance as soon as possible.



## Instructions for Attending the Meeting

**To Attend In-Person and Provide Verbal Comments:** Go to the SCAG Main Office located at 900 Wilshire Blvd., Ste. 1700, Los Angeles, CA 90017 or any of the remote locations noticed in the agenda. The meeting will take place in the Policy B Meeting Room on the 17<sup>th</sup> floor starting at 1:00 p.m.

**To Attend by Computer:** Click the following link: <https://scag.zoom.us/j/86206531319>. If Zoom is not already installed on your computer, click "Download & Run Zoom" on the launch page and press "Run" when prompted by your browser. If Zoom has previously been installed on your computer, please allow a few moments for the application to launch automatically. Select "Join Audio via Computer." The virtual conference room will open. If you receive a message reading, "Please wait for the host to start this meeting," simply remain in the room until the meeting begins.

**To Attend by Phone:** Call **(669) 900-6833** to access the conference room. Given high call volumes recently experienced by Zoom, please continue dialing until you connect successfully. Enter the **Meeting ID: 862 0653 1319**, followed by #. Indicate that you are a participant by pressing # to continue. You will hear audio of the meeting in progress. Remain on the line if the meeting has not yet started.

## Instructions for Participating and Public Comments

**Members of the public can participate in the meeting via written or verbal comments.**

- In Writing:** Written comments can be emailed to: [ePublicComment@scag.ca.gov](mailto:ePublicComment@scag.ca.gov). Written comments received **by 5pm on Monday, April 21, 2025**, will be transmitted to members of the legislative body and posted on SCAG's website prior to the meeting. You are **not** required to submit public comments in writing or in advance of the meeting; this option is offered as a convenience should you desire not to provide comments in real time as described below. Written comments received after 5pm on Monday, April 21, 2025 will be announced and included as part of the official record of the meeting. Any writings or documents provided to a majority of this committee regarding any item on this agenda (other than writings legally exempt from public disclosure) are available at the Office of the Clerk, at 900 Wilshire Blvd., Suite 1700, Los Angeles, CA 90017 or by phone at (213) 630-1420, or email to [aguilarm@scag.ca.gov](mailto:aguilarm@scag.ca.gov).
- Remotely:** If participating in real time via Zoom or phone, please wait for the presiding officer to call the item for which you wish to speak and use the "raise hand" function on your computer or \*9 by phone and wait for SCAG staff to announce your name/phone number.
- In-Person:** If participating in-person, you are invited but not required, to fill out and present a Public Comment Card to the Clerk of the Board or other SCAG staff prior to speaking. It is helpful to indicate whether you wish to speak during the Public Comment Period (Matters Not on the Agenda) and/or on an item listed on the agenda.

## General Information for Public Comments

Verbal comments can be presented in real time during the meeting. Members of the public are allowed a total of 3 minutes for verbal comments. The presiding officer retains discretion to adjust time limits as necessary to ensure efficient and orderly conduct of the meeting, including equally reducing the time of all comments.

For purpose of providing public comment for items listed on the Consent Calendar, please indicate that you wish to speak when the Consent Calendar is called. Items listed on the Consent Calendar will be acted on with one motion and there will be no separate discussion of these items unless a member of the legislative body so requests, in which event, the item will be considered separately.

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



## AUDIT COMMITTEE MEETING AGENDA

### TELECONFERENCE AVAILABLE AT THESE ADDITIONAL LOCATIONS

<b>Keith Eich</b> 4821 Daleridge Road La Cañada Flintridge, CA 91011	<b>Curt Hagman</b> Chino Hills District Office 14010 City Center Drive Chino Hills, CA 91709
<b>Steve Manos</b> 53180 Odyssey Street Lake Elsinore, CA 92532	<b>Ray Marquez</b> 15922 Old Carbon Canyon Road Chino Hills, CA 91709
<b>Ali Saleh</b> City of Bell – City Hall 6330 Pine Avenue Bell, CA 90201	<b>Marty Simonoff</b> Metrolink 2704 N. Garey Avenue Pomona, CA 91767
<b>Alan Wapner</b> City of Ontario - City Hall 303 East B Street Conference Room 1 Ontario, CA 91764	

\* Under the teleconferencing rules of the Brown Act, members of the body may remotely participate at any location specified above.



### **AC - Audit Committee Members – April 2025**

- 1. Hon. Ray Marquez**  
AC Chair, Chino Hills, RC District 10
- 2. Hon. Keith Eich**  
La Canada Flintridge, District 36
- 3. Sup. Curt Hagman**  
San Bernardino County
- 4. Hon. Steve Manos**  
Lake Elsinore, RC District 63
- 5. Hon. Ali Saleh**  
Bell, RC District 27
- 6. Hon. Marty Simonoff**  
Brea, RC District 22
- 7. Hon. Alan Wapner**  
SBCTA Representative



## AUDIT COMMITTEE AGENDA

Southern California Association of Governments  
900 Wilshire Boulevard, Suite 1700 – Policy B Meeting Room  
Los Angeles, CA 90017  
**Tuesday, April 22, 2025**  
**1:00 PM**

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

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

*(The Honorable Ray Marquez, Chair)*

### **PUBLIC COMMENT PERIOD (Matters Not on the Agenda)**

This is the time for public comments on any matter of interest within SCAG’s jurisdiction that is *not* listed on the agenda. For items listed on the agenda, public comments will be received when that item is considered. Although the committee may briefly respond to statements or questions, under state law, matters presented under this item cannot be discussed or acted upon at this time.

### **REVIEW AND PRIORITIZE AGENDA ITEMS**

#### **CONSENT CALENDAR**

##### Approval Item

1. Minutes of the Meeting – December 10, 2024 PPG. 5

#### **INFORMATION ITEMS**

2. Eide Bailly Required Audit Communication for Financial Audits 20 Mins. PPG. 10  
*(David James, Internal Auditor, SCAG)*
3. Internal Audit Report on REAP 1 Grant Expenditures by Subrecipients 20 Mins. PPG. 17  
*(David James, Internal Auditor, SCAG)*
4. Internal Audit Policies and Procedures Manual Update 10 Mins. PPG. 30  
*(David James, Internal Auditor, SCAG)*
5. Audit Status Report 10 Mins. PPG. 52  
*(David James, Internal Auditor, SCAG)*

#### **FUTURE AGENDA ITEMS**

#### **ANNOUNCEMENTS**

#### **ADJOURNMENT**



**AUDIT COMMITTEE (AC)**  
**MINUTES OF THE MEETING**  
**TUESDAY, DECEMBER 10, 2024**

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

The Audit Committee (AC) of the Southern California Association of Governments (SCAG) held its regular meeting both in person and virtually (telephonically and electronically). A quorum was present.

**Members Present:**

<b>Hon. Ray Marquez, Chair</b>	<b><i>Chino Hills</i></b>	<b>District 10</b>
Sup. Curt Hagman, President		San Bernardino County
Hon. Steve Manos	<i>Lake Elsinore</i>	District 63
Hon. Ali Saleh	<i>Bell</i>	District 27
Hon. Marty Simonoff	<i>Brea</i>	District 22
Hon. Alan D. Wapner		SBCTA

**Members Not Present**

Hon. Edward Wilson	<i>Signal Hill</i>	GCCOG
--------------------	--------------------	-------

**CALL TO ORDER AND PLEDGE OF ALLEGIANCE**

The Honorable Ray Marquez, Chino Hills, Chair, called the meeting to order at 2:30 p.m. He asked Councilmember Alan Wapner, SBCTA, to lead the Pledge of Allegiance. The Clerk confirmed a quorum was present.

**PUBLIC COMMENT PERIOD**

Chair Marquez provided detailed instructions and general information on how to provide public comments. Additionally, he noted that public comments received via email to [ePublicComment@scag.ca.gov](mailto:ePublicComment@scag.ca.gov) after 5 p.m. on Monday, December 9, 2024, would be announced and included as part of the official record of the meeting.



Chair Marquez opened the public comment period and noted this was the time for members of the public to offer comment for matters that are within SCAG’s jurisdiction but are not listed on the agenda.

The Clerk acknowledged there were no written public comments received via email before or after the 5 p.m. deadline on Monday, December 9, 2024. SCAG staff also noted that there were no public comments for matters not listed on the agenda.

Chair Marquez closed the public comment period for matters not listed on the agenda.

**REVIEW AND PRIORITIZE AGENDA ITEMS**

There were no reprioritizations made.

**CONSENT CALENDAR**

Approval Item

1. Minutes of the Meeting – June 12, 2024

A MOTION was made (Hagman) and SECONDED (Manos) to approve the Consent Calendar, Item No.

1. The motion passed by the following roll call vote:

**AYES:** Hagman, Manos, Marquez, Saleh and Wapner (5)

**NOES:** None (0)

**ABSTAIN:** None (0)

There were no public comments or additional discussions from the Committee on this item.

**INFORMATION ITEMS**

2. Eide Bailly Annual Comprehensive Financial Report and Single Audit For Fiscal Year 2024

David James, Internal Auditor, introduced Kinnaly Soukhaseum, Partner, and Kyle Bartle, Senior Manager, Eide Bailly LLP, and asked them to present the results of the annual SCAG financial statements audit and Single Audit for the fiscal year ended June 30, 2024.

The presentation included an overview of the audit engagement and responsibilities in relation to financial statements under Government Auditing Standards (GAS).

Mr. Bartle noted that an Unmodified or “clean” audit opinion was issued on November 18, 2024, for both the Annual Comprehensive Financial Report (ACFR) and Single Audit. Highlights of the audit results included the following:

- Audit on internal control over financial reporting and on compliance in accordance with Generally Accepted Auditing Standards and Government Auditing Standards;
- Audit of the ACFR; and Single Audit;
- Testing of its compliance requirements with certain provisions of laws, regulations, contracts, and noncompliance which could have a direct and material effect on the determination of financial statement amounts;
- Audit review of items designated as “significant risks” such as: management override of controls, revenue recognition and estimates related to pension and other post-employment benefit amounts.

Mr. Bartle concluded his presentation noting there were no uncorrected misstatements identified as a result of the audit, no material weakness or instances of noncompliance.

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

There were no public comments received for this item.

The PowerPoint presentation - Eide Bailly - SCAG Required Communications - Conclusion 2024, was included in the agenda packet.

### 3. Caltrans Incurred Cost Audit

Chair Marquez asked Cindy Giraldo, Chief Financial Officer, to provide an overview of the Caltrans Incurred Cost Audit.

Ms. Giraldo provided background information highlighting the regulations and compliance that SCAG must follow to receive funds through the Master Fund Transfer Agreement and the Incurred Cost Audit that Caltrans initiated in 2018. She reported on the final report issued in 2018 whereby Caltrans auditors listed \$7 million dollars in non-supported cost, \$2 million of those costs were disallowed and needed to be returned to Caltrans. SCAG’s management put in place a corrective action plan to address those findings.

Ms. Giraldo noted that Caltrans auditors returned in 2024 to initiate an Incurred Cost Audit of costs claimed between July 2021 and February 2024. There were no instances of unsupported costs, which was a significant improvement from the 2018 audit. Ms. Giraldo stated that there were some compliance issues and SCAG is in process of drafting a corrective action plan, which is due to

Caltrans by January 20, 2025. All corrective actions must be fully implemented within one year of the date of the plan submission.

Ms. Giraldo reported that SCAG is in process of formalizing the corrective action plan required by Caltrans, with work already underway to address the findings. She noted that the Caltrans Incurred Cost Audit Final Report, Management Responses and the Incurred Cost CAP letter was included in the agenda packet.

Staff responded to the comments and questions expressed by the Councilmembers, including responses to comments regarding Caltrans repetition of the same issues noted in both the August 2024 and November 2024 recommendations letter.

Darin Chidsey, Chief Operating Officer, provided additional details on the Caltrans Audit and expressed appreciation to the SCAG team on their efforts in implementing the recommendations from the previous audit resulting in an audit with very few findings.

There were no public comments received for this item.

The comprehensive staff report along with the additional attachments noted above, was included in the agenda packet.

#### 4. Internal Audit Status Report

David James, Internal Auditor, presented the Internal Audit Status Report, which lists work performed since the last Audit Committee meeting. Mr. James provided a brief update of the projects currently in progress and internal audit projects to perform in the remainder of fiscal year (FY) 2025. Highlights included:

- Internal Audit of REAP 1 grant expenditures by subrecipients for the period of Oct. 1, 2019- June 30, 2023. The results will be presented to Management and brought to the Audit Committee;
- Objectives and timeline of the Internal Audit of SCAG Data Audit which reviews the accuracy of data, risks, and internal controls. A draft report will be presented to management in early 2025;
- Update to the SCAG Internal Audit Policies and Procedures Manual. The final version will be presented to SCAG staff and to the Audit Committee for feedback;
- Update on SCAG's ethics hotline which noted that there were no reports received by SCAG staff since the last Audit Committee.

There were no additional discussions made on this item.



---

There were no public comments received for this item.

The comprehensive staff report was included in the agenda packet.

**FUTURE AGENDA ITEMS**

There were no future agenda items.

**ANNOUNCEMENTS**

There were no announcements.

**ADJOURNMENT**

There being no further business, Chair Marquez adjourned the Audit Committee meeting at 2:56 p.m.

Respectfully submitted by:  
Carmen Summers  
Audit Committee Clerk

[MINUTES ARE UNOFFICIAL UNTIL APPROVED BY THE AUDIT COMMITTEE]  
//



**AGENDA ITEM 2**  
**REPORT**

Southern California Association of Governments  
April 22, 2025

**To:** Audit Committee (AC)

**EXECUTIVE DIRECTOR'S  
APPROVAL**

**From:** David James, Internal Auditor

(213) 630-1483, djames@scag.ca.gov

**Subject:** Eide Bailly Required Audit Communication for Financial Audits

**RECOMMENDED ACTION:**

Information Only – No Action Required

**STRATEGIC PRIORITIES:**

This item supports the following Strategic Priority 5: Secure and optimize diverse funding sources to support regional priorities.

**EXECUTIVE SUMMARY:**

*SCAG's external auditors, Eide Bailly, present Required Audit Communication with the Scope of Work for the Fiscal Year Ended June 30, 2025:*

- *Annual Comprehensive Financial Report (ACFR)*
- *Single Audit*
- *Preparation of the annual Financial Transactions Report to the State Controller's Office.*

*Their presentation will describe the phases and timing of the audits, the auditors' responsibilities, and changes in accounting standards for the fiscal year 2025.*

**FISCAL IMPACT:**

None.

**ATTACHMENT(S):**

1. PowerPoint Presentation - SCAG Planning Communications 2025 2spp



## SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS

### REQUIRED AUDIT COMMUNICATIONS

For the Fiscal Year Ended June 30, 2025  
April 22, 2025

## ENGAGEMENT MANAGEMENT TEAM



**Kinnaly Soukhaseum, CPA**

Partner  
ksoukhaseum@eidebailly.com  
909.466.4410



**Kyle Bartle, CPA**

Senior Manager  
kbartle@eidebailly.com  
916.999.8512



# AUDITOR'S REQUIRED COMMUNICATION (AU-C 260)

---

- Scope of Work for the Fiscal Year Ended June 30, 2025:
  - Annual Comprehensive Financial Report (ACFR)
  - Single Audit
  - Preparation of the annual Financial Transactions Report to the State Controller's Office



# AUDITOR'S REQUIRED COMMUNICATION (AU-C 260)

---

- Our Responsibility
  - We are responsible for conducting our audit in accordance with the U.S. Generally Accepted Auditing Standards (GAAS), *Government Auditing Standards*, and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)
  - Express an opinion about whether the financial statements that have been prepared by management are presented fairly, in all material respects, in conformity with generally accepted accounting principles:
    - Reasonable, not absolute assurance
    - Audit does not relieve the management of its responsibilities
  - For the Single Audit, express an opinion on compliance applicable to each major federal program



## AUDITOR'S REQUIRED COMMUNICATION (AU-C 260)

---

- Our Responsibility (continued)
  - Our audit includes obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements, the risk of material noncompliance in the major federal award programs, and as a basis to design the nature, timing and extent of further audit procedures, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control over financial reporting.
  - Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity.



## AUDITOR'S REQUIRED COMMUNICATION (AU-C 260)

---

- Our Responsibility (continued)
  - In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as "significant risks." Although we are currently in the planning stage of our audit, we have preliminarily identified the following significant risks that require special audit consideration.
  - Identify areas potentially more susceptible to misstatement, thereby requiring special audit considerations. These are designated by as "significant risks". The following was identified as an area of significant risk:
    - Management override of internal controls
    - Revenue recognition
    - Significant estimates related to pensions and other post-employment benefit amounts



# AUDITOR'S REQUIRED COMMUNICATION (AU-C 260)

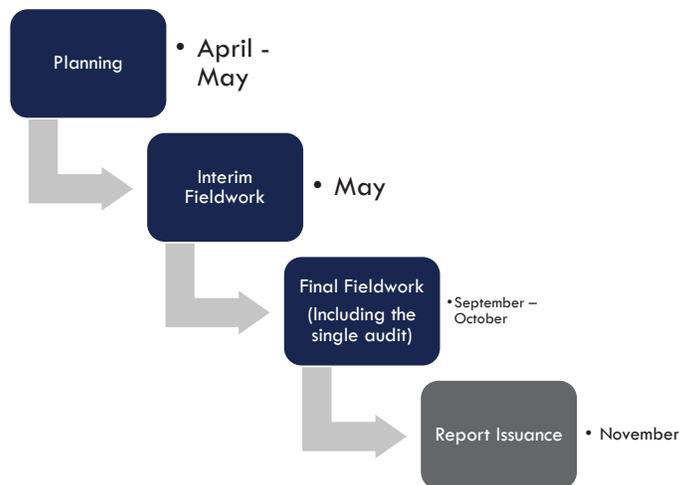
- Our Responsibility (continued)

- At the conclusion of the audit, we will communicate to you the following:
  - Any material weaknesses of significant deficiencies in internal controls identified;
  - Any violation of laws or regulations that come to our attention;
  - Our views related to qualitative aspects of the entity's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures;
  - Significant difficulties, if any, encountered during the audit;
  - Significant unusual transactions, if any;
  - The potential effects of uncorrected misstatements on future-period financial statements; and
  - Other significant matters that are relevant to your responsibilities in overseeing the financial reporting process.



# AUDITOR'S REQUIRED COMMUNICATION (AU-C 260)

- Engagement Timing



# AUDITOR'S REQUIRED COMMUNICATION (AU-C 260)

---

- Phases of the audit:
  - Planning and Interim Fieldwork
    - Prepare a risk assessment based on our understanding of the entity, its environment and risks to form an audit plan
    - Meet with management
    - Perform inquiries of management and others regarding fraud risks
    - Obtain/update our understanding of the design and implementation of internal controls over financial reporting and compliance
      - Test internal controls over key business cycles
        - Revenues, disbursements, payroll, investments, capital assets, financial reporting, information technology, budget
      - Follow up on the status of prior audit findings or recommendations



# AUDITOR'S REQUIRED COMMUNICATION (AU-C 260)

---

- Phases of the audit (continued):
  - Final Fieldwork and Reporting
    - Address key audit areas
    - Perform tests, on a sample basis, on account balances and classes of transactions
    - Prepare draft financial statements
    - Test journal entries for proper support and business purpose
    - Assess accounting principles used and significant estimates
    - Confirm contingencies with legal counsel
    - Consider subsequent events through the issuance of the report
    - Propose/discuss audit adjustments (if any)
    - Present findings and recommendations (if any)
    - Provide required communication to governance



# CHANGES IN ACCOUNTING STANDARDS FOR FISCAL YEAR 2025

## GASB STATEMENT 101 – COMPENSATED ABSENCES

- **Effective for the SCAG's fiscal year ended June 30, 2025**
  - This Statement establishes standards of accounting and financial reporting for (a) compensated absences and (b) associated salary-related payments, including certain defined contribution pensions and defined contribution other postemployment benefits (OPEB)
  - This may require a restatement to beginning balances



## QUESTIONS?



## AGENDA ITEM 3

### REPORT

Southern California Association of Governments  
April 22, 2025

---

**To:** Audit Committee (AC)

EXECUTIVE DIRECTOR'S  
APPROVAL

**From:** David James, Internal Auditor

(213) 630-1483, djames@scag.ca.gov

**Subject:** Internal Audit Report on REAP 1 Grant Expenditures by Subrecipients

*Kome Ajise*

---

**RECOMMENDED ACTION:**

Information Only – No Action Required

**STRATEGIC PRIORITIES:**

This item supports the following Strategic Priority 5: Secure and optimize diverse funding sources to support regional priorities.

**EXECUTIVE SUMMARY:**

*Internal Audit has completed an audit report on REAP 1 grant expenditures by SCAG subrecipients. SCAG management has reviewed the report and responded in writing to its recommendations. Management's response follows the report.*

*In addition, the Internal Auditor met with auditees at San Gabriel Council of Governments, Orange County Council of Governments, and Riverside County Planning Department to discuss the audit report and their responses. These responses are described in the report, and a copy of the final report was sent to the auditees.*

*In general, Internal Audit found that SCAG and subrecipients followed grant requirements for REAP 1. However, this audit found issues with:*

- *A duplicate payment of a subvendor*
- *Duplicate invoice submissions by a Council of Governments*
- *Invoiced amounts being greater than work completed*
- *Variable fringe benefit rates invoiced by Councils of Governments*
- *MOU requirements for timesheets submission with invoices*
- *A small error on an invoice payment.*

*The primary objectives of this audit were to determine whether:*

- *SCAG and subrecipients followed SCAG policies and procedures regarding REAP 1 payments*

- *REAP 1 grant and California Department of Housing and Community Development (HCD) requirements were met*
- *Subrecipients' and subvendors' invoices were properly documented and approved*
- *Invoice payment amounts are correct.*

*The audit scope covers REAP 1 activity from July 1, 2021 to August 12, 2024.*

**FISCAL IMPACT:**

An error was found with an invoice payment by SCAG, but SCAG has been reimbursed for the overpayment.

**ATTACHMENT(S):**

1. Internal Audit REAP 1 Subrecipient Report FINAL
2. Internal Audit REAP 1.0 grant expenditures by subrecipients- Management Response 090424



**SCAG Internal Audit  
Report on  
REAP 1 Grant Expenditures  
by SCAG Subrecipients**

**February 19, 2025  
By David James, CPA**

**Table of Contents**

Executive Summary.....3

Audit Objectives and Scope.....3

Audit Methodology.....3

Background.....4

    REAP 1 and Objectives of the Program.....4

    Orange County Council of Governments (OCCOG) .....5

    San Gabriel Valley Council of Governments (SGVCOG).....5

    Riverside County Planning Department .....5

Observations and Recommendations.....6

    Observation 1: Duplicate Payment for Subvendor Invoice .....6

    Observation 2: Duplicate Subvendor Invoices.....6

    Observation 3: Percentage of Work Completed Versus Amount Invoiced.....7

    Observation 4: Variable Fringe Benefit Rates.....7

    Observation 5: MOU Requirements for Timesheets with Invoices.....8

    Observation 6: Incorrect Payment for Invoice.....9

**Executive Summary**

In general, Internal Audit found that SCAG and subrecipients followed grant requirements for REAP 1. However, this audit found issues with:

- 1. A duplicate payment of a subvendor
- 2. Duplicate invoice submissions by a Council of Governments
- 3. Invoiced amounts being greater than work completed
- 4. Variable fringe benefit rates invoiced by Councils of Governments
- 5. MOU requirements for timesheets submission with invoices
- 6. A small error on an invoice payment.

For details, see the *Observations and Recommendations* section on page 6.

**Audit Objectives and Scope**

The primary objectives of this audit were to determine whether:

- SCAG and subrecipients followed SCAG policies and procedures regarding REAP 1 payments
- REAP 1 grant and California Department of Housing and Community Development (HCD) requirements were met
- Subrecipients’ and subvendors’ invoices were properly documented and approved
- Invoice payment amounts are correct.

The audit scope covers REAP 1 activity from July 1, 2021 to August 12, 2024.

**Audit Methodology**

To achieve the audit objectives, Internal Audit performed the following:

- Reviewed SCAG policies, procedures, and documents relevant to REAP 1
- Interviewed SCAG Accounting personnel who processed REAP 1 invoices, SCAG Planning staff, subrecipient staff, and consultants that worked on REAP 1 projects
- Obtained an understanding of internal controls and evaluated control design and effectiveness
- Reviewed and tested invoice packages in the audit scope for accuracy, completeness, and compliance with MOUs.

This audit randomly selected the REAP 1 activities of three subrecipients for review:

- Orange County Council of Governments (OCCOG)
- San Gabriel Valley Council of Governments (SGVCOG)
- Riverside County Planning Department.

This audit examined 100% of the invoices submitted by the three selected subrecipients for the entirety of REAP 1 projects. There were 34 invoices for OCCOG, 32 invoices for SGVCOG, and five invoices for Riverside County Planning Department. These invoice packages typically have over a hundred pages of supporting documentation that included invoices of subvendors and sub-subvendors, with documentation of personnel and tasks performed during the invoice period. This audit assessed every expense item in each invoice for adequate support.

**Background**

*REAP 1 and Objectives of the Program*

The adopted fiscal year 2019-2020 California Budget (AB 74, June 2019) and the associated housing trailer bill (AB 101) established the Regional Early Action Planning (REAP 1) grant program. The program was administered by the California Department of Housing and Community Development (HCD).

The principal goal of REAP 1 was to make funding available to Councils of Governments and other regional agencies for the preparation, adoption, and implementation of plans and processes that accelerate housing production and facilitate compliance in implementing the 6th Cycle Regional Housing Needs Allocation (RHNA).

The full funding amount of REAP 1 award to SCAG was \$47,471,023. The REAP 1 awards were announced on May 31, 2021. After a deadline extension by the state legislature, the REAP 1 programs were scheduled to be completed by June 30, 2024.

SCAG allocated approximately \$23,506,000 of its REAP 1 funding for the Subregional Partnership Program (SRP) to fund 15 subregions in planning activities to accelerate housing production and facilitate implementation of each jurisdiction’s 6th Cycle Regional Housing Needs Allocation (RHNA). The planning activities were focused on accommodating the development of housing and supportive infrastructure in alignment with state and regional planning priorities in Connect SoCal, SCAG’s Regional Transportation Plan/Sustainable Communities Strategy.

SCAG’s funding amounts for REAP 1 by subregion were approximately:

<b>REAP 1 Subrecipient</b>	<b>Funding Amount</b>
City of Los Angeles	\$8,100,000
Orange County Council of Governments (OCCOG)	\$3,200,000
San Bernardino County Transportation Authority/San Bernardino Council of Governments (SBCTA)/(SBCOG)	\$2,400,000
Western Riverside Council of Governments (WRCOG)	\$1,700,000
Los Angeles County	\$1,600,000
San Gabriel Valley Council of Governments (SGVCOG)	\$1,600,000
Gateway Cities Council of Governments (GCCOG)	\$1,300,000
Riverside County Planning Department	\$720,000
South Bay Cities Council of Governments (SBCCOG)	\$603,000
Coachella Valley Association of Governments (CVAG)	\$558,000
Ventura Council of Governments (VCOG)	\$432,000
San Fernando Valley Council of Governments (SFVCOG)	\$395,000
Westside Cities Council of Governments (WSCCOG)	\$340,000
Imperial County Transportation Commission (ICTC)	\$282,000
North Los Angeles County Transportation Coalition (NCTC)	\$276,000
<b>Total</b>	<b>\$23,506,000</b>

**Orange County Council of Governments (OCCOG)**

SCAG awarded to OCCOG \$3,245,000 for REAP 1 projects. The objective of the planning-related projects submitted by OCCOG in compliance with SCAG Program Guidelines was to bring housing development in their subregion.

Project deliverables included:

- Housing-related model ordinances
- Pre-approved plans and design standards for Accessory Dwelling Units (ADUs)
- Interactive “Housing Orange County” website
- 11 “Housing Orange County” explainer videos regarding housing-related topics
- “ADU How-To” toolkit
- Geospatial planning tools and 3-D visualizations for housing-related projects
- Certifications and strategic plans for Orange County’s two housing trusts.

**San Gabriel Valley Council of Governments (SGVCOG)**

SCAG awarded to SGVCOG \$1,600,000 for REAP 1 projects. SVGCOG created an inventory of publicly and privately owned land that could serve as sites for affordable and/or homeless housing development. The effort to develop the inventory of publicly owned land used existing tools, including the inventory of surplus lands required by the State’s Surplus Land Act, cities’ efforts to find sites for their housing elements, and SCAG’s Housing Element Parcel Tool.

SGVCOG also used REAP 1 funds for their Affordable Housing Incubator, which offered member cities access to consultants to advance housing goals and increase affordable housing. These technical resources resulted in support for accessory dwelling unit (ADU) programs, evaluations of inclusionary housing feasibility, San Gabriel Valley Regional Housing Trust (SGVRHT) bond issuance feasibility, and guides for affordable housing on city-owned land and RFP templates.

SGVCOG also did the Regional Community Land Trust Feasibility Study, which assessed the feasibility of developing a San Gabriel Valley Regional Land Trust, creating a best practices report and framework to address land costs as a barrier to affordable housing. The proposed Land Trust would acquire vacant or underutilized properties and lease them long-term to developers for affordable housing. The SGVRHT will use this report and framework to establish a Land Trust.

**Riverside County Planning Department**

SCAG awarded to Riverside County Planning Department \$720,000 for REAP 1 projects. The key deliverable was an adoption resolution for the Riverside County General Plan amendment for new land uses and policies and environmental clearance. The key tasks include community outreach, land use and policy drafting, environmental clearance, and the approval process. Performance indicators include the number of development applications or General Plan amendment/change of zone requests submitted to the County, which indicated how well the area was planned. The outcome is a land use plan and specific policies that are included in Riverside County’s General Plan.

**Observations and Recommendations**

**Observation 1: Duplicate Payment for Orange County Housing Financial Trust Invoice**

Orange County Council of Governments (OCCOG) submitted to SCAG invoice #113 dated September 5, 2022, and invoice #114 dated October 1, 2022, that each included the same invoice from subvendor Orange County Housing Finance Trust (Invoice 00003 dated September 1, 2022 for \$60,000).

SCAG paid for the same services twice, a \$60,000 overpayment, on check dates December 8, 2022 (Payment Number 0069657) and January 12, 2023 (Payment Number 0069926).

**Recommendations**

- 1. SCAG should request that OCCOG refund the \$60,000 overpayment.
- 2. SCAG Accounting should use a subvendor invoice tracking system to ensure invoices submitted more than once are only paid once.
- 3. OCCOG should ensure that when submitting subvendor invoices for payment, the invoices are only submitted once.

**Management Responses**

OCCOG staff accepted the recommendations. SCAG credited the invoice overpayment with a subsequent invoice.

**Observation 2: OCCOG submitted Duplicate Invoices from Subvendors to SCAG**

In addition to the duplicate invoice in Observation 1 above, OCCOG submitted a duplicate invoice from subvendor LSA for \$9,183.60 dated April 11, 2023, Invoice No. 187673. OCCOG Invoice No. 121 dated May 2, 2023 and Invoice No. 123 dated June 30, 2023 both have this LSA invoice. SCAG Accounting disallowed the second submission of this invoice, noting it had already been paid.

OCCOG also submitted to SCAG on 10/27/2023 a duplicate invoice for subvendor Interwest in the amount of \$28,920 (Interwest invoice #90842). OCCOG had previously submitted the identical invoice from Interwest on 9/28/2023. SCAG Accounting staff caught this duplicate submission by OCCOG and disallowed the second submission for payment.

These repeated instances of submission to SCAG of duplicate invoices of subvendors indicate a weakness in internal controls in OCCOG’s invoice submission processes to SCAG. Duplicate invoices from vendors and subvendors increase the risk of errors and overpayments by SCAG.

**Recommendation**

When submitting their invoices to SCAG, OCCOG should verify that they have not previously submitted the subvendor invoices. OCCOG staff should improve their internal controls regarding duplicate submissions of subvendor invoices.

**Management Response**

OCCOG staff told Internal Audit that they have implemented systems to prevent submission to SCAG of duplicate invoices from subvendors.

**Observation 3: Percentage of Work Completed Versus Amount Invoiced**

Internal Audit found several instances where the cumulative dollar amount invoiced was greater than the percentage of work completed by more than SCAG Accounting’s threshold of 0.5%. SCAG’s policy encourages the cumulative dollar amount of payments by SCAG to correspond to project work as it is completed. This policy addresses the risk that payments to a vendor could get ahead of work completed, and that the total amount budgeted for a project could be exhausted before the project is completed.

OCCOG had 15 instances of invoice dollar charges that were greater than the 0.5% threshold. For example, OCCOG’s invoice dated 7/18/22 shows a 31% completion of projects, but the cumulative amount invoiced is 35.57%, a variance of 4.57%.

Riverside County Planning Department had three instances of invoice charges that were greater than the 0.5% threshold, out of a total of five invoices. For example, the invoice dated 11/7/2022 shows a 60% completion of projects, but the cumulative amount invoiced is 92.84%, a variance of 32.84%.

**Recommendations**

SCAG Accounting staff and Project Managers should require that Councils of Governments and vendors follow the policy that the percentage of cumulative amounts for projects invoiced not exceed 0.5% of the completion percentage of projects.

**Management Responses**

OCCOG staff told Internal Audit that they will monitor their future invoices to SCAG to ensure that the percentage billed does not exceed the percentage of work completed by a material amount.

Riverside County Planning Department staff acknowledged this variance in their invoices and agreed with this finding. Internal Audit did not recommend revising the invoices for these completed projects. Riverside County staff stated that going forward they will follow this recommendation, including for their projects under REAP 2.

**Observation 4: Variable Fringe Benefit Rates Invoiced by Councils of Governments**

This audit found numerous variances by invoice in fringe benefit rates charged by Riverside County Planning Department and San Gabriel Valley Councils of Governments.

For example, Riverside County Planning Department invoice dated 12/13/2021, the labor charge was \$11,722.88 and the fringe benefit charge was \$6,551.03, a rate of 55.88%. But for the invoice dated 7/12/2022, the labor charge was \$22,925.97 and the fringe benefit charge was \$7,958.22, a rate of 34.71%. This is a rate variance of 21.17%.

For example, San Gabriel Valley Council of Governments invoice dated 1/21/2022, the labor charge was \$2,404.64 and the fringe benefit charge was \$291.13, a rate of 12.11%. But for the invoice dated 3/20/2024, the labor charge was \$3,882.35 and the fringe benefit charge was \$1,789.76, a rate of 46.10%. This is a rate variance of 33.99%.

Fringe benefits cover items such as bilingual pay, retirement, retirement debt service, social security, Medicare tax, Flex benefit plan, life insurance, long term disability, optical insurance, unemployment insurance, deferred compensation, transportation administrative fees, SEIU training, and other post-employment benefits.

What constitutes fringe benefits that SCAG should pay, or how fringe benefits are calculated, is not defined in the MOUs. SCAG learns what the fringe benefit charge is when the invoice arrives. There is no standard way for SCAG Accounting to calculate fringe benefit amounts of Councils of Governments. Without a clear methodology on how fringe benefits charges to SCAG are calculated, SCAG cannot assess the reasonableness of fringe benefit charges.

Although invoices covered whole months, these costs were calculated biweekly, so in some months two charges were made, and in some months three charges were made. The subrecipients typically use their systems reports to determine fringe benefits costs to pass on to SCAG.

**Recommendations**

SCAG should require that grant subrecipients use a consistent method for fringe benefit charges. This method should be specifically described in the MOU between SCAG and the Council of Governments.

**Management Responses**

Riverside County Planning Department staff said the benefit ratio may fluctuate in billing periods but the categories remain consistent per government established rates. Riverside County bills for direct benefits, not based on Indirect Benefits Rate (ICAP - Indirect Cost Allocation Plan) a percentage figure calculated to represent the proportion of overall indirect costs that are allocated to projects based on their direct costs, determining how much of those indirect costs each project should bear.

San Gabriel Valley Council of Governments staff said that fringe benefits are based on the approved rates by the approving agency. SGVCOG staff said they will invoice at federally approved rates or lower for fringe benefits.

**Observation 5: MOU Requirements for Timesheets with Invoices**

MOUs for San Gabriel Valley Council of Governments (SGVCOG), Orange County Council of Governments (OCCOG), and Riverside County Planning Department require that each invoice submitted to SCAG include the identification of each employee, contractor, or subcontractor staff who provided services during the period of the invoice, the number of hours and hourly rates for each employee, “including complete timesheets or timecards signed by the employee and approved by the supervisor.” MOUs for each of the three agencies used identical language for invoice payment requirements.

SCAG staff interpreted that for REAP 1 invoices payroll registers and full timesheets were not required. SCAG Accounting staff tracked budget balance by total amounts and confirmed that the hours charged were supported in the invoice report. SCAG Accounting staff interpreted the Project Manager’s approval to mean that the rate charged by the consultant was reasonable and therefore allowable. The invoices were all approved by the Project Manager, Section Manager, and SCAG Accounting.

The invoices have lists of consultant employees who worked on projects, their rates and hours. However, the invoices did not include signed timesheets/timecards.

**Recommendations**

SCAG should perform tasks required for invoice payment per MOU requirements. If staff determine that because of grant requirements different procedures are appropriate for invoice approval, then the MOUs should be prepared or revised accordingly.

**Management Response**

See attached response from SCAG management.

**Observation 6: Incorrect Payment for Invoice**

OCCOG submitted an invoice dated May 20, 2022 to SCAG that included a charge of \$325 for services performed by Kathryn Morrison. However, Kathryn Morrison only billed for \$275 for REAP 1 services during that period. SCAG paid this invoice with a check dated August 18, 2022.

**Recommendations**

- 1. OCCOG should reimburse SCAG \$50 for this overpayment.
- 2. When reviewing an invoice with subvendors, OCCOG and SCAG Accounting should verify the amounts billed to SCAG match the amounts invoiced by subvendors.

**Management Response**

See attached response from SCAG management.

**Management Response to Internal Audit Report on REAP 1.0**

Item	Item Description	IA Recommendation	Management Response	Status
<b>Observation 1: Duplicate payment</b>	Subrecipient (OCCOG) submitted invoice #113 in the amount of \$60,000 two consecutive months. SCAG paid for the same service twice in fiscal year 2023.	SCAG should request that OCCOG refunds the \$60,000 overpayment. SCAG accounting should use a subvendor invoice tracking system to ensure invoices submitted more than once are only paid once. OCCOG should ensure that when submitted subvendor invoices for payment, the invoices are only submitted once.	Management agrees with the recommendation. OCCOG submitted its September 2023 invoice with a \$60,000 credit. OCCOG is already required to ensure that invoices are only submitted once. Accountants already track subrecipient invoices. Oversight occurred due to staff turnover and/or staff being on leave. For MOUs established in FY2025, accounting developed invoice templates, tracking worksheets and PM checklists to ensure proper review takes place prior to approval of the invoice.	Completed
<b>Observation 2: OCCOG submitted duplicate invoices from subvendors to SCAG</b>	OCCOG submitted an invoice for LSA in the amount of \$9,183.60 twice. OCCOG also submitted a duplicate invoice for Subvendor Interwest in the amount of \$28,920. SCAG accounting disallowed the duplicate invoices.	OCCOG should ensure that when submitted subvendor invoices for payment, the invoices are only submitted once.	OCCOG is already required to verify that the reimbursement request is accurate and no duplicate invoices are submitted. The SCAG PM will discuss the issue with OCCOG and remind them of this requirement.	Completed
<b>Observation 3: Percentage of work completed versus amount invoiced</b>	For REAP 1 invoices paid by SCAG, OCCOG had 15 instances of invoice dollar charges that were greater than the 0.5% threshold ( the percentage of work completed on a project being less than the percentage of work invoiced and paid).  Riverside County Planning Department had four out of five instances of invoice dollar charges that were greater than the 0.5% threshold.  SGVCOG had one instance of invoice dollar charges that were greater than the 0.5% threshold.	In approving invoices for payment, project managers and accounting staff should consistently check that the percentage of work invoiced is not materially greater than the percentage of work completed, i.e., the 0.5% threshold. If the SCAG project manager still approves an invoice with a variance for payment, then the project manager should include a written explanation for the approval that explains their decision to approve despite the difference between the percentage of work completed and the percentage of the dollar amount invoiced on a project.	It is the business practice of the Accounting staff to calculate the variance between the invoice dollar charges and the percentage of work completed to identify the invoice variances over 0.5% and to request the PM to review the invoices to ensure they are satisfied with the work performed in relation to the invoiced amount. Not in all instances will a variance represent an issue as not all expenses will be evenly divided by the work performed. Management agrees that the PM should add an explanation in addition to indicating that they approve the variance.  Also, the REAP 1.0 Subregional Partnership Program utilized a Scope of Work Approval Form (SAF) to make changes to the funding allocations between projects, changes in scope for individual projects, and other changes that don't result in a net change to the funding award. For the invoices listed under Observation 2 for OCCOG, the SAF forms were in the process of amendment to allocate more funds to the projects referenced. This resulted in the appearance of a variance, but when considered in relationship to the revised SAF allocations, remained within the 0.5% threshold required.  In order to ensure that clarity around this timing issue is properly documented in the invoice files, SCAG PMs will include an explanation in the file as to the reason for the approved variance along with their email approval of the invoice.  Management agrees with the recommendation, the PM will provide a written explanation of why the payment is acceptable for any variance over 0.5%. This explanation will be in the email for current MOUs and contracts and in the PM checklist for new MOUs established in FY2025.	Completed

<p><b>Observation 4: Variable Fringe Benefits</b></p>	<p>Noted numerous variances by invoices in fringe benefit rates charged by SGVCOG and Riverside County Planning Department.</p> <p>SCAG learns what the fringe benefit charge is when the invoice arrives. There is no standard way for SCAG accounting to calculate fringe benefit amounts of COGs. Without clear methodology on how fringe benefits charges to SCAG are calculated, SCAG cannot assess the reasonableness of fringe benefit charges.</p>	<p>SCAG should require that COGs use a consistent method for fringe benefit charges. This method should be specifically described in the MOU between SCAG and the COG.</p>	<p>Fringe benefit rates were not reviewed prior to finalizing the MOUs because it was not known at that time if the subrecipients had approved fringe benefit rates. SCAG has now requested documentation from the COGs to support their fringe benefit rates. SGVCOG either invoice at their federally approved rates or lower and the methodology for calculating the Fringe benefits for the Riverside County Planning Department appears to be reasonable.</p> <p>For future MOUs, Budget &amp; Grants staff will review fringe benefits and overhead/indirect rates during the subrecipient risk assessment process prior to the MOU execution. SCAG PMs will request documentation from subrecipients to support annual updates to fringe benefits and overhead/indirect rates. Budget &amp; Grants will review and approve the rates. When reviewing invoices, project managers will verify the rates are consistent with the approved fringe benefits and overhead/indirect rates on file, and will communicate any issues to sub-recipients.</p>	<p>Completed</p>
<p><b>Observation 5: MOU requirements for timesheets with invoices.</b></p>	<p>MOUs for SGVCOG, OCCOG, and Riverside County Planning departments require each invoice submitted to SCAG include the identification of each employee, contractor, or subcontractors staff who provided services during the period of the invoice, the number of hours and hourly rates for each employee, "including complete timesheets or timecards signed by the employee and approved by the supervisor." SCAG staff interpreted that for REAP 1 invoices payroll registers and full timesheets were not required. SCAG Accounting staff tracked budget balance by total amounts and confirmed that the hours charged were supported in the invoice report. SCAG Accounting staff interpreted the Project Manager's approval to mean that the rate charged by the consultant was reasonable and therefore allowable. The invoices were all approved by the Project Manager, Section Manager, and SCAG Accounting.</p> <p>The invoices have lists of consultant employees who worked on projects, their rates and hours. However, the invoices did not include signed timesheets/timecards.</p>	<p>SCAG should perform tasks required for invoice payment per MOU requirements. If staff determine that because of grant requirements, different procedures are appropriate for invoice approval, then the MOUs should be prepared or revised accordingly.</p>	<p>Management agrees with the recommendation. Staff have been advised to follow the terms of the MOU and when applicable to request an amendment to the MOU before changing the process.</p>	<p>Completed</p>
<p><b>Observation 3: Incorrect Payment for invoice</b></p>	<p>OCCOG invoice \$325 for a subconsultant that only invoiced OCCOG for \$275.</p>	<p>OCCOG should reimburse SCAG \$50 for this over payment. OCCOG and SCAG should verify the amounts billed to SCAG match the amounts invoices by OCCOG subvendors.</p>	<p>OCCOG submitted an invoice for 13 hours of work at a rate of \$25 as per approved contract. The supporting documents provided reflected that the subvendor did perform 13 hours of work and therefore paid the billed amount of \$325. SCAG's Accounting communicated with subrecipient the issue. Subrecipient provided proof of payment for the additional \$50.</p>	<p>Completed</p>



**AGENDA ITEM 4**  
**REPORT**

Southern California Association of Governments  
April 22, 2025

**To:** Audit Committee (AC)

**EXECUTIVE DIRECTOR'S  
APPROVAL**

**From:** David James, Internal Auditor

(213) 630-1483, djames@scag.ca.gov

**Subject:** Internal Audit Policies and Procedures Manual Update

**RECOMMENDED ACTION:**

Information Only – No Action Required

**STRATEGIC PRIORITIES:**

This item supports the following Strategic Priority 5: Secure and optimize diverse funding sources to support regional priorities.

**EXECUTIVE SUMMARY:**

*SCAG Internal Audit has prepared an update to its Policies and Procedures Manual. This manual was last updated ten years ago. The main revisions to the manual reflect current government audit standards. There are also updates of descriptions of types of audits performed to remove types of audits no longer performed and add new types of audits such as in-kind match and Title VI audits.*

*The manual update refers to the 2024 revision of Government Auditing Standards of the U.S. Government Accountability Office. Commonly known as the Yellow Book, it provides standards and guidance for auditors and audit organizations, outlining the requirements for audit reports, professional qualifications for auditors, and audit organization quality control. Auditors of federal, state, and local government programs use these standards to perform their audits and produce their reports. The Government Auditing Standards applies to financial audits, attestation engagements, and reviews of financial statements.*

*The SCAG Internal Audit Manual covers the role of the Internal Auditor at SCAG, the SCAG Internal Audit Charter and Code of Ethics, applicable Yellow Book standards, Generally Accepted Government Standards and how they apply to SCAG, and SCAG Internal Audit Procedures.*



---

**FISCAL IMPACT:**

None.

**ATTACHMENT(S):**

1. InternalAuditPoliciesAndProcedures 3-20-25

# INTERNAL AUDIT DEPARTMENT

## POLICIES & PROCEDURES MANUAL

NOVEMBER 4, 2014  
(Updated March 2025)



## TABLE OF CONTENTS

	<b>Page</b>
<b>Preface</b>	4
<b>A. ORGANIZATION</b>	
1. Audit Charter	5
2. Code of Ethics	5
3. Standards	6
<b>B. GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS (GAGAS)</b>	
GAGAS General Standards	6
1. Independence	6
2. Professional Judgment	7
3. Competence	7
4. Quality Management	8
5. Types of Engagements	9
a. Financial	
b. Attestation Engagements	
c. Performance	
e. Audit of External Entities	
f. In-Kind Match	
g. Nonaudit Services	

## C. SCAG INTERNAL AUDIT PROCEDURES

1. Audit Committee	10
2. Risk Assessment	10
3. Audit Workplan	10
4. Planning	11
5. Audit Programs	11
6. Entrance Conference	13
7. Performing Audits	13
8. Testing and Sampling	13
9. Work Papers	14
10. Quality Management	15
11. Audit Findings	16
12. Exit Conference	16
13. Draft Audit Report	17
14. Auditee Response	17
15. Final Audit Report	17
16. Audit Follow-up	18
17. Fraud	18
18. Other Matters	19
19. Supervision	20

## Preface

SCAG has had an Internal Audit Department since September 2001. The responsibilities of the Internal Auditor include the examination and evaluation of the adequacy and effectiveness of SCAG's governance, risk management, internal controls, and the quality of performance in carrying out assigned responsibilities to achieve SCAG's goals and objectives.

### The Internal Auditor:

- Determines compliance with SCAG fiscal policies and regulations regarding revenue, expenses, budgets, contracts, lease compliance, subregions, projects, and programs.
- Evaluates the efficiency, effectiveness, and economy of SCAG operations, including the safeguard of SCAG assets.
- Provides the Audit Committee with timely reports of audit findings, analyses, and recommendations to strengthen and improve internal controls and performance results.
- Performs special assignments by the Regional Council, Audit Committee, Executive Director, or Chief Operating Officer.
- Directs, manages, plans, and performs internal audits including operational, compliance, and financial audits of all SCAG activities.
- Prepares audit plans; conducts appropriate follow-up research, prepares analysis and work papers to document audit work, and writes audit reports.
- Participates in the development and implementation of new or revised SCAG audit programs, systems, procedures, and methods of operation.
- Reports all cases of actual or suspected loss, theft, misappropriation, or misuse of SCAG monies or property to the Chief Counsel and Chief Operating Officer.
- Reviews and coordinates requests by outside agencies to conduct audits, which include, but are not limited to, federal, state, county, or others with a contractual right to audit.

## A. Organization

### A.1. Internal Audit Charter

The Internal Audit function was established by the Regional Council and the SCAG Executive Director pursuant to the Internal Audit Charter adopted in 2002. The objective of the Internal Audit function is to assist all members of management in the efficient and effective discharge of their responsibilities by furnishing them with independent analysis, appraisals, and recommendations. The Internal Auditor is authorized to conduct such audits/reviews of any department system or function as are necessary to accomplish its objective.

The Internal Auditor is authorized complete and unrestricted access to all SCAG records, personnel, and physical properties relevant to the performance of the audit or review. The Internal Auditor reports to the Audit Committee. Administratively, the Internal Auditor has a dotted-line reporting responsibility to the Chief Operating Officer.

### A.2. Code of Ethics

Generally Accepted Government Auditing Standards (GAGAS) establishes fundamental principles of ethical behavior.<sup>1</sup> The public expects auditors who conduct their work in accordance with GAGAS to follow ethical principles. Other ethical requirements or codes of professional conduct may apply to auditors who conduct audits in accordance with GAGAS. For example, Certified Public Accountants (CPAs) are required by their state boards of accountancy to have ethics training to renew their licenses.

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

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

---

<sup>1</sup>GAO, *Government Auditing Standards 2024 Revision*. See <http://www.gao.gov/yellowbook>.

<sup>2</sup>See <https://scag.sharepoint.com/sites/SCAGhub/Company%20Policies/Forms/AllItems.aspx?id=%2Fsites%2FSCAGhub%2FCompany%20Policies%2FSCAG%20Ethics%20Policy%202023%2Epdf&q=ethics&parent=%2Fsites%2FSCAGhub%2FCompany%20Policies&parentview=7> on SCAG's intranet for SCAG's Ethics Policy.

### A.3. Standards

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

## B. General Standards

### B.1. Independence

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

The Internal Auditor should be independent of the entity being audited during the period covered by the audit.<sup>3</sup> Threats to independence should be considered, as set forth in GAGAS 3.30 et seq.<sup>4</sup> The Internal Auditor should document these threats. If the threats are not acceptable, the Internal Auditor should document the categories of threats and the safeguards to reduce threats to an acceptable level. If threats cannot be eliminated or reduced to an acceptable level, the Internal Auditor should decline the audit.

The Internal Auditor should evaluate the following categories of threats to independence for each audit:

- a. Self-interest threat
- b. Self-review threat
- c. Bias threat
- d. Familiarity threat
- e. Undue influence threat
- f. Management participation threat
- g. Structural threat.

The Internal Auditor should evaluate threats after the audit report is issued and the Internal Auditor should take appropriate steps, as described in GAGAS 3.34.

The Internal Auditor should document any considerations of independence and any judgments made regarding independence. The Internal Auditor should describe any threats identified and safeguards applied to eliminate the threats or reduce them to an acceptable level.

The Internal Auditor should be sufficiently removed from political pressures to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal.

<sup>3</sup>See GAGAS 3.17 for a discussion of independence.

<sup>4</sup>GAGAS 3.30-3.34.

## B.2. Professional Judgment

Professional judgment includes exercising reasonable care and professional skepticism. Reasonable care includes acting diligently in accordance with applicable professional standards and ethical principles.<sup>5</sup> Professional skepticism is an attitude that includes a questioning mind and a critical assessment of evidence. In exercising professional skepticism, the auditor assumes neither that management is dishonest nor of unquestioned honesty.

## B.3. Competence

Internal Audit staff must have adequate professional competence to address audit objectives and perform the audit work in accordance with GAGAS.<sup>6</sup> Competence is derived from education and experience.

Internal Audit staff must have the knowledge and skills appropriate for the work performed. For example, if the audit work involves review of information systems, knowledge and skill in information technology is appropriate. The Internal Auditor must evaluate and determine if staff has the qualifications and competency for the audit work performed. With limited audit staff, it is particularly important that Internal Audit staff meet the qualifications and competency for performing the audit work.

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

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

---

<sup>5</sup>GAGAS 3.109-3.117.

<sup>6</sup>GAGAS 4.01-4.15.

## B.4. Quality Management

The Internal Auditor is responsible for designing, implementing, and operating a system of quality management for engagements.<sup>7</sup> The system should provide the Internal Auditor with reasonable assurance that he is complying with professional standards and applicable legal and regulatory requirements.

The Internal Auditor should document quality management policies and procedures and compliance with these policies and procedures. The policies and procedures should address:

- a) The Internal Auditor has leadership responsibilities, including designation of responsibility for quality of audits performed
- b) Maintaining independence and complying with applicable legal and ethical requirements
- c) Providing reasonable assurance that the Internal Auditor will undertake audits only if he can comply with professional standards, legal requirements, and ethical principles
- d) Having the human resources that are capable and competent to perform audits in accordance with professional standards and legal and regulatory requirements. The Internal Auditor should assess skill needs to consider whether the Internal Audit workforce has the essential skills that match those necessary to perform the audit. The Internal Auditor should have a process for recruitment, hiring, continuous development, assignment, and evaluation of staff to maintain a competent workforce
- e) Providing reasonable assurance that audits are performed and reports issued in accordance with professional standards and legal and regulatory requirements
- f) Monitoring compliance with quality management policies and procedures to determine if professional standards and legal and regulatory requirements have been followed, the quality management system has been properly designed, and the quality management policies and procedures are operating effectively and complied with in practice.

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

---

<sup>7</sup>GAGAS 5.01-5.138.

## B.5. Types of Engagements

Financial audits provide independent assessments of whether entities' reported financial information is presented fairly, in all material respects, in accordance with recognized criteria. Financial audits conducted in accordance with GAGAS include financial statement audits and other related financial audits.

Attestation engagements can cover a broad range of financial or nonfinancial objectives about the subject matter or assertion depending on the users' needs. In an attestation engagement, the subject matter, or an assertion by a party other than the auditors, is measured or evaluated in accordance with suitable criteria. The three types of attestation engagements are:

- Examination: An auditor obtains reasonable assurance by obtaining sufficient, appropriate evidence about the measurement or evaluation of subject matter against criteria to be able to draw reasonable conclusions on which to base the auditor's opinion about whether the subject matter is in accordance with the criteria or the assertion is fairly stated, in all material respects. The auditor obtains the same level of assurance in an examination as in a financial statement audit.
- Review: An auditor obtains limited assurance by obtaining sufficient, appropriate review evidence about the measurement or evaluation of subject matter against criteria to express a conclusion about whether any material modification should be made to the subject matter for it to be in accordance with the criteria or to the assertion for it to be fairly stated. Review-level work does not include reporting on internal control or compliance with provisions of laws, regulations, contracts, and grant agreements. The auditor obtains the same level of assurance in a review engagement as in a review of financial statements.
- Agreed-upon procedures engagement: An auditor performs specific procedures on subject matter or an assertion and reports the findings without providing an opinion or a conclusion on it. The specified parties to the engagement agree upon and are responsible for the sufficiency of the procedures for their purposes.

Performance audits provide objective analysis, findings, and conclusions to assist management and those charged with governance and oversight with, among other things, improving program performance and operations, reducing costs, facilitating decision making by parties responsible for overseeing or initiating corrective action, and contributing to public accountability.

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

## C. SCAG Internal Audit Procedures

### C.1. Audit Committee

The SCAG Regional Council formally established the Audit Committee to be responsible for the independent review and oversight of SCAG's financial reporting processes, internal controls, Internal Auditor, and external auditor. The Internal Auditor reports to the Audit Committee with a dotted-line administrative responsibility to the SCAG Chief Operating Officer.

The Audit Committee reviews and approves the Internal Auditor's workplans. The Committee receives and reviews internal audit reports directly from the Internal Auditor.

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

The Audit Committee meets with the Internal Auditor as needed to discuss matters that the Committee or the Internal Auditor believes should be discussed privately.

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

### C.2. Risk Assessment

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

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

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

### C.3. Audit Workplan

The audit workplan is a broad, high-level plan describing the types of audits planned. The Internal Auditor prepares a workplan based on the Risk Assessment. The audit workplan is

submitted to the Audit Committee for approval. The Audit Committee will either approve the audit workplan or request changes. If changes are requested, the plan will be amended and resubmitted at the next Audit Committee meeting for approval.

#### C.4. Planning

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

The Internal Auditor identifies criteria needed to evaluate the matters subject to audit. Criteria represent the laws, regulations, contracts, grant agreements, standards, specific requirements, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated.

The Internal Auditor will also evaluate whether to use the work of other auditors and specialists to address audit objectives. If the Internal Auditor decides to employ specialists, he must assess the professional qualifications and independence of the specialists. Assessing the independence of specialists includes identifying threats and applying any necessary safeguards in the same manner as for auditors performing work on those audits.

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

#### C.5. Audit Programs

An *audit program* lists and describes the steps taken to perform the audit and achieve the audit objectives. For each internal audit, the Internal Auditor prepares an audit program to achieve the objectives of the audit. The Internal Auditor prepares audit programs for various types of audits:

##### Incurred Cost Audits

This type of audit program is used for internal audits of SCAG financial systems and for SCAG subregions. It includes reviews of labor charging including timekeeping, fringe benefits, overhead, and paid bills.

### Compliance audits

*Compliance audits* assessments an organization's adherence to frameworks or regulatory requirements. The Internal Auditor compares contracts, memorandums of understanding, laws or policies with actual practice.

### Subrecipient Audits

For subrecipients using federal, state, or local government grant funds, SCAG maintains the right to audit those agencies as stipulated in the Memorandum Of Understanding (MOU). These organizations include local governments, councils of governments, other government agencies, community groups, or consultants. These entities include grant subrecipients and any organization that receives funds from SCAG. SCAG uses federal, state, and local government grant funds that it distributes to subrecipients such as other government agencies, local governments, councils of governments, nongovernment agencies, and consultants. Granting agencies hold SCAG responsible to ensure these funds are spent in accordance with the grant terms. MOUs specify that the Internal Auditor will have full access to records and personnel of agencies that perform these projects.

### In-Kind Match Audits

*In-Kind Match Audits* confirm that agencies have provided to SCAG sufficient and appropriate documentation for in-kind matches. SCAG gets in-kind payments from third-party agencies such as County Transportation Commissions. These agencies must identify sources of funding for in-kind matches. Local Match Funds require supporting documentation when "in-kind" is the local match. The agencies must report the source of funding and identify labor costs.

### Title VI Audits

Internal Audit performs recurring audits of SCAG compliance with Title VI of the Civil Rights Act, which protects people from discrimination based on race and national origin in programs receiving federal financial funds. The Federal Transit Administration (FTA) works to ensure nondiscriminatory transportation, and FTA Office of Civil Rights monitors FTA recipients' Title VI programs and their compliance with Title VI requirements. FTA Circular 4702.1B provides recipients of FTA financial assistance with guidance to carry out the U.S. Department of Transportation Title VI regulations.

### Specialized Audit Programs

Occasionally modifications to the standardized programs are necessary for special purpose reviews. Examples are travel expenses and procurements.

## C.6. Entrance Conference

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

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

Not all audits will have a formal entrance conference. Depending on agency circumstances, audits may begin with phone calls and emails between the Internal Auditor and the organization's key contacts. At that point, document requests can be made and time estimates discussed. Document requests should be made for all types of audits.

## C.7 Performing Audits – Fieldwork

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

Auditors must use professional judgment in planning, performing, and reporting audits. Professional judgment must be used to determine the sufficiency and appropriateness of evidence.

Auditors may use several types of evidence. Evidence obtained through direct physical examination or observation is the most reliable. Other types of evidence may be used such as original documents, copies of original documents, testimony from individuals and evidence from a knowledgeable, credible, and unbiased third-party.

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

## C.8. Testing and Sampling

The Internal Auditor reviews internal controls as part of audits at SCAG. After reviewing internal controls and processes with auditees, the next step is to test the assertions made and questions answered to verify that the controls are working as expected.

Tests should be of a size and nature to substantiate what is happening in the processes under examination. For example, a test of accounts payable must be of sufficient size that it

represents what is being done in processing invoices.

The Internal Auditor uses statistical sampling in performing audits. When using sampling, the appropriate selection method will depend on the audit objectives. When a representative sample is needed, the use of statistical sampling approaches results in stronger evidence than that obtained from nonstatistical techniques. When a representative sample is not needed, a targeted selection may be effective if the Internal Auditor has isolated risk factors or other criteria to target the selection.

## C.9. Work Papers

*Work papers* are a record of the work done on an audit. Work papers support the information presented in the final audit report, especially the findings and recommendations.

The work papers should be complete, clear, and accurate. Another auditor who is unfamiliar with the audit should be able to read and understand the work paper, the work done, and the conclusions.

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

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

Auditors should evaluate and document the objectivity, credibility, and reliability of testimonial evidence. When officials of the audited entity provide information, auditors should determine what the officials did to obtain assurance over the reliability of the information. It may require testing of management's procedures by the auditor to obtain assurance or perform direct testing of the information.

Auditors should assess the sufficiency and appropriateness of computer-processed information. The effectiveness of the audited entity's internal controls will affect the nature, timing, and extent of the audit procedures.

When assessing the sufficiency and appropriateness of evidence, auditors should evaluate the expected significance of evidence to the audit objectives, findings, and conclusions, available corroborating evidence, and level of audit risk. The steps to assess evidence may depend on the nature of the evidence, how the evidence is used in the audit or report, and the audit objectives.

1. Evidence is sufficient and appropriate when it provides a reasonable basis for supporting the findings or conclusions within the context of the audit objectives.
2. Evidence is not sufficient or appropriate when using the evidence carries an

unacceptably high risk that it could lead the auditor to reach an incorrect or improper conclusion, the evidence has significant limitations, or the evidence does not provide an adequate basis for addressing the audit objectives or supporting the findings and conclusions. Such evidence should not be used by auditors to support findings and conclusions.

Evidence has limitations or uncertainties when the validity or reliability of the evidence has not been assessed or cannot be assessed, given the audit objectives and the intended use of the evidence. Limitations also include errors identified by the auditors in their testing. When the auditors identify limitations or uncertainties in evidence that is significant to the audit findings and conclusions, they should apply additional procedures, as appropriate.

Work paper retention should be in accordance with SCAG's record retention policies.<sup>8</sup> Work papers should be available to other auditors upon request.

## C.10. Quality Management

Quality management procedures should ensure that the Internal Auditor is independent, uses professional judgment, and adequately plans audits. The procedures also should ensure that the Internal Auditor obtains sufficient appropriate evidence to support findings, document audit findings, and present them in an audit report.

Auditors should determine the overall sufficiency and appropriateness of evidence to provide a basis for findings and conclusions. Auditors should perform and document an overall assessment of the collective evidence used to support findings and conclusions, including the results of any specific assessments conducted to conclude on the validity and reliability of specific evidence.

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

The Internal Auditor should analyze and summarize the results of its monitoring process with identification of any systemic or repetitive issues needing improvement, along with recommendations for corrective action. This should be documented as Quality Management Review. Deficiencies should be communicated to appropriate personnel.

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

---

<sup>8</sup>See SCAG's Records Management Policy and Procedures at <https://scag.sharepoint.com/sites/SCAGhub/Company%20Policies/Forms/AllItems.aspx?id=%2Fsites%2FSCAGhub%2FCompany%20Policies%2FRecords%20Management%20Policy%20and%20Procedures%2Epdf&parent=%2Fsites%2FSCAGhub%2FCompany%20Policies>

## C.11. Audit Findings

According to the GAO *Government Auditing Standards*, a *finding* is an issue that may involve a deficiency in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; or instances of fraud. SCAG Internal Audit reports also use the term *observation* to describe an audit finding.

The elements of audit findings are:

- **Criteria:** These are the laws, regulations, contracts, grants, or other benchmarks against which performance is compared or evaluated.
- **Condition:** This is the situation that exists. It is determined and documented during the audit.
- **Cause:** This is the reason for the condition found. It is the factor or factors that lead to the difference between the condition that exists and the criteria.
- **Effect:** This is the result or the impact of the difference between the condition and the criteria. This can be a financial or operational variance from the requirements of the criteria.

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

Auditors should plan and perform procedures to develop the elements of a finding necessary to address the audit objectives. In addition, if auditors can sufficiently develop the elements of a finding, they should develop recommendations for corrective action if they are significant within the context of the audit objectives. A finding or set of findings is complete to the extent that the audit objectives are addressed, and the report clearly relates those objectives to the elements of a finding.

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

## C.12. Exit Conference

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

### C.13. Draft Audit Report

The Internal Auditor prepares a draft audit report and sends it to the auditee. The Internal Auditor requests a response from the auditee. Usually, the response is requested within thirty days. This time may vary, depending on the nature or significance of the findings.

The draft report describes the objectives, scope of the audit, and the period audited. A description of the audit work and the findings and recommendations is included as required. The findings should be described clearly so that a third-party who reads the draft will understand the facts and circumstances of the findings.

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

The report must state that use of the report is restricted to specified parties, if such is the case.

### C.14. Auditee Response

The auditee receives the draft audit report with a request to provide a written response to the findings within a certain time. The Internal Auditor reviews the auditee's response.

If there is a misunderstanding of the findings on the part of the auditee, the Internal Auditor will give the auditee the opportunity to revise the response. Otherwise, the auditee's response is included in the final audit report.

### C.15. Final Audit Report

After the auditee has provided a response, the Internal Auditor prepares the final audit report. Usually the findings, discussion, and recommendations will be the same as in the draft report. However, if the auditee does not concur with the report and submits credible evidence that changes the findings or recommendations, the Internal Auditor will evaluate the new evidence. If indicated, the Internal Auditor will perform additional audit work or revise the report.

The auditee's response will be included verbatim in the final audit report. The Internal Auditor will analyze the response and may add an analysis of the response.

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

bodies or those organizations requiring or requesting the audit.

The Internal Auditor presents all Internal Audit reports to the Audit Committee. These reports are included in the Audit Committee Meeting's Full Agenda Packet, which is saved on the SCAG website at <https://scag.ca.gov/audit-committee>.

If, after the report is issued, the Internal Auditor discovers that he did not have sufficient, appropriate evidence to support the reported findings or conclusions, he should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the organizations requiring or arranging for the audits, and other known users, so that they do not continue to rely on the findings or conclusions that were not supported.

If the report was previously posted to the auditors' website, it will be removed and noted on the website. The auditors should then determine if additional audit work is needed to reissue the report and if there are any revised findings or conclusions.

### C.16. Audit Follow-up

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

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

### C.17. Fraud

Fraud involves obtaining something of value through willful misrepresentation. The Internal Auditor will report any detected instances of fraud in accordance with GAGAS.<sup>10</sup> The severity of the fraud detected and the response by the auditee's management dictates the manner of reporting by the Internal Auditor.

The Internal Auditor will follow up on tips from third parties. The Internal Auditor maintains a hotline to receive tips from whistleblowers. The webpage is at <https://scag.ca.gov/contact-us-ethics-hotline>.

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

---

<sup>10</sup>GAGAS A.09-A.10.

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

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

The Internal Auditor will also consider abuse as he performs audits.<sup>11</sup> Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances. Abuse also includes misuse of authority or position for personal monetary interests or those of an immediate or close family member or business associate.

### C.18. Other Matters

Nonaudit services, which are defined as professional services other than audits or attestation engagements, are not covered by GAGAS.<sup>12</sup> The Internal Auditor will notify requestors that nonaudit services requested do not constitute audits conducted in accordance with GAGAS. The Internal Auditor must be cognizant of any threats to independence in performing nonaudit services and should document the fact.

Management is responsible for designating an individual who has the skill, knowledge, or experience to oversee the services to be performed. The Internal Auditor should document consideration of management's ability to effectively oversee nonaudit services to be performed.

---

<sup>11</sup>GAGAS A.07-A.08.

<sup>12</sup>GAGAS 2.12-2.13.

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

When performing nonaudit services not specifically prohibited, the Internal Auditor should use the conceptual framework to evaluate independence (see <https://gaoinnovations.gov/yellowbook/2024/figure-1.html#figure-1>). When preparing separate evaluations about the effectiveness of the internal control system, auditors should evaluate the management participation threat and any applied safeguards.

If specialists are used, the Internal Auditor must assess the qualifications and independence of the specialists and document the assessment. The Internal Auditor must identify any threats to independence and apply any necessary safeguards in the same manner as he would for auditors performing work on those audits.

### C.19. Supervision

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

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

With limited staff, the Internal Auditor function should take the necessary actions to ensure that quality audits and work are performed under GAGAS and professional standards.



**AGENDA ITEM 5**

**REPORT**

Southern California Association of Governments  
April 22, 2025

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

**EXECUTIVE DIRECTOR'S  
APPROVAL**

*Kome Ajise*

**RECOMMENDED ACTION:**  
Information Only – No Action Required

**STRATEGIC PRIORITIES:**  
This item supports the following Strategic Priority 5: Secure and optimize diverse funding sources to support regional priorities.

- EXECUTIVE SUMMARY:**
- *Internal audit of SCAG data is in progress.*
  - *Internal Audit plans to audit In-Kind Match.*
  - *Internal Audit plans to audit Title VI.*
  - *SCAG's Ethics Hotline has received one report.*

**BACKGROUND:**  
*A. Internal Audit of SCAG Data*

Internal Audit is currently auditing SCAG data. The audit objectives are to assess processes for how data is acquired, maintained, and verified. The audit reviews the accuracy of data, risks, and internal controls. The audit scope covers outward facing data such as in SCAG's Regional Data Platform that are currently in use. Not included is SCAG internal data such as for accounting, financial reporting, and human resources. Internal Audit will review audit observations and recommendations with staff and prepare a draft report.

*B. Internal Audit of In-Kind Match*

Internal Audit plans to begin In-Kind Match audits to confirm that agencies have provided to SCAG sufficient and appropriate documentation for in-kind matches. SCAG gets in-kind payments from third-party agencies such as County Transportation Commissions. These agencies must identify sources of funding for in-kind matches. Local match funds require supporting documentation when

in-kind is the local match. The agencies must report the sources of funding and identify labor costs. SCAG Internal Audit will perform these audits on an ongoing basis.

*C. Internal Audit of Title VI Compliance by SCAG*

Internal Audit plans to begin recurring audits of SCAG compliance with Title VI of the Civil Rights Act, which protects people from discrimination based on race and national origin in programs receiving federal financial funds. The Federal Transit Administration (FTA) works to ensure nondiscriminatory transportation, and FTA Office of Civil Rights monitors FTA recipients' Title VI programs and their compliance with Title VI requirements. FTA Circular 4702.1B provides recipients of FTA financial assistance with guidance to carry out the U.S. Department of Transportation Title VI regulations. SCAG Internal Audit is implementing a program to audit SCAG's compliance with Title VI on an annual basis.

*D. SCAG Ethics Hotline Reports Update*

SCAG has received one report on its Ethics Hotline since the last Audit committee meeting in December. A report was submitted on March 17, 2025. Internal Audit referred the report to SCAG's Chief Counsel and SCAG's Chief Human Resources Officer. This anonymous complaint involves conduct of an employee that occurred prior to employment with SCAG, and in a non-SCAG context outside the course and scope of the employee's previous and current employment. SCAG's Chief Counsel prepared a memo with legal analysis and recommendations for staff. SCAG's Chief Human Resources Officer responded to the anonymous complaint using the Ethics Hotline, affirming SCAG's commitment to the safety and well-being of all individuals. The complaint is under review and being monitored.

**FISCAL IMPACT:**

None.