



## Board of Directors Agenda

Friday, October 25, 2024  
9 a.m.

Welcome to SANDAG. The Board of Directors meeting scheduled for Friday, October 25, 2024, will be held in person in the SANDAG Board Room. While Board of Directors members will attend in person, members of the public will have the option of participating either in person or virtually.

For public participation via Zoom webinar, click the link to join the meeting: <https://us02web.zoom.us/j/84653121196>

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Persons who wish to address the members on an item to be considered at this meeting, or on non-agendized issues, may email comments to the Clerk at [clerkoftheboard@sandag.org](mailto:clerkoftheboard@sandag.org) (please reference Board of Directors meeting in your subject line and identify the item number(s) to which your comments pertain). Comments received by 4 p.m. the business day before the meeting will be provided to members prior to the meeting. All comments received prior to the close of the meeting will be made part of the meeting record.

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**ជំនួយភាសាឥតគិតថ្លៃ | ఉచిత భాషా సహాయం | ການຊ່ວຍເຫຼືອດ້ານພາສາຟຣີ | Kaalmada Luqadda ee Bilaashka ah |**

**Безкоштовна мовна допомога | [sandag.org/LanguageAssistance](https://sandag.org/LanguageAssistance) | (619) 699-1900**

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**Vision Statement:** *Pursuing a brighter future for all*

**Mission Statement:** *We are the regional agency that connects people, places, and innovative ideas by implementing solutions with our unique and diverse communities.*

**Our Commitment to Equity:** *We hold ourselves accountable to the communities we serve. We acknowledge we have much to learn and much to change; and we firmly uphold equity and inclusion for every person in the San Diego region. This includes historically underserved, systemically marginalized groups impacted by actions and inactions at all levels of our government and society.*

*We have an obligation to eliminate disparities and ensure that safe, healthy, accessible, and inclusive opportunities are available to everyone. The SANDAG equity action plan will inform how we plan, prioritize, fund, and build projects and programs; frame how we work with our communities; define how we recruit and develop our employees; guide our efforts to conduct unbiased research and interpret data; and set expectations for companies and stakeholders that work with us.*

*We are committed to creating a San Diego region where every person who visits, works, and lives can thrive.*



# Board of Directors

Friday, October 25, 2024

## Comments and Communications

### 1. Non-Agenda Public Comments/Member Comments

Members of the public shall have the opportunity to address the Board of Directors on any issue within the jurisdiction of SANDAG that is not on this agenda. Public speakers are limited to three minutes or less per person. Public comments under this agenda item will be limited to five public speakers. If the number of public comments under this agenda item exceeds five, additional public comments will be taken at the end of the agenda. Board members and SANDAG staff also may present brief updates and announcements under this agenda item.

## Consent

### +2. Approval of Meeting Minutes

Approve

*Tessa Lero, SANDAG*

The Board of Directors is asked to approve the minutes from its October 11, 2024, meeting.

[Meeting Minutes.pdf](#)

### +3. Chief Executive Officer Delegated Actions\*

Information

*Beth Lupu, SANDAG*

In accordance with various Board Policies, this report summarizes delegated actions taken by the Chief Executive Officer.

[CEO Delegated Actions.pdf](#)

[Att. 1 - Investment Securities Transactions Activity - September 2024.pdf](#)

[Att. 2 - Budget Transfers and Amendments - September 2024.pdf](#)

[Att. 3 - 2023 RTIP Amendment No. 17 - Table 1.pdf](#)

### +4. Policy Advisory Committee Actions

Approve

*Francesca Webb, SANDAG*

The Board of Directors is asked to ratify the actions taken by the Policy Advisory Committees as noted in the report.

[Policy Advisory Committee Actions.pdf](#)

### +5. Master Fund Transfer Agreement with Caltrans

Adopt

*Tyler Woods, SANDAG*

The Transportation Committee recommends that the Board of Directors adopt Resolution No. 2024-08, authorizing the Chief Financial Officer to execute the Master Fund Transfer Agreement with Caltrans (2025-2035).

[Master Fund Transfer Agreement with Caltrans.pdf](#)

[Att. 1 - Board Resolution No. 2025-08.pdf](#)

[Att. 2 - DRAFT 2025 MFTA.pdf](#)

## Reports

### +6A. Office of the Independent Performance Auditor's Companion Investigation Reports to the State Route 125 Toll Operations Investigation

Discussion

*Courtney Ruby, Independent Performance Auditor*

The Office of the Independent Performance Auditor will present the reports for discussion.

[OIPA SR 125 Toll Operations Companion Investigation.pdf](#)  
[OIPA Whistleblower Investigation Report on SR 125.pdf](#)  
[Presentation.pdf](#)

**+6B. Management Response**

*Mario Orso, SANDAG*

Management will present its response.

[Management's Response and Corrective Action Plan.pdf](#)

**+7A. FY 2024 Compilation of External Audit Recommendations and OIPA Annual Audit and Investigations Recommendation and Corrective Action Plan Reports**

Information

*Courtney Ruby, Independent Performance Auditor, Emilee Mullen, SANDAG*

The Audit Committee recommends that the FY 2024 Compilation of External Audit Recommendations and OIPA Annual Audit and Investigations Recommendation and Corrective Action Plan Reports be provided to the Board of Directors for information.

[FY 2024 Compilation of External Audit Recommendations.pdf](#)  
[OIPA Audit Rec and CAP Status Report.pdf](#)  
[Presentation.pdf](#)

**7B. Management Response**

*Mario Orso, SANDAG*

Management will present its response.

**+8. State Route 125 Toll Removal Process and Debt Retirement**

Discussion

*Dawn Vettese, Antoinette Meier, SANDAG*

Staff will present an overview of the process and anticipated costs to retire the debt and remove toll operations from State Route 125.

[State Route 125 Toll Removal Process and Debt Retirement.pdf](#)  
[Att. 1 - Resolution No. 2023-11.pdf](#)  
[Att. 2 - Debt Service Schedule.pdf](#)  
[Att. 3 - PFM Memo.pdf](#)  
[Presentation.pdf](#)

**Adjournment**

**9. Adjournment**

The next Board of Directors meeting is scheduled for Friday, November 8, 2024, at 10 a.m.

+ next to an agenda item indicates an attachment

\* next to an agenda item indicates that the Board of Directors also is acting as the San Diego County Regional Transportation Commission for that item

## **October 11, 2024, Board of Directors Minutes**

### [View Meeting Video](#)

Chairwoman Nora Vargas (County of San Diego) called the meeting of the Board of Directors to order at 10:35 a.m.

#### **1. Non-Agenda Public Comments/Member Comments**

Public Comments: Alan C., Truth, Michael Brando, Mark, and Robert Germann.

Member Comments: Deputy Mayor Terry Gaasterland (Del Mar), Councilmember Melanie Burkholder (Carlsbad), and Chief Executive Officer Mario Orso.

#### **Consent**

#### **2. Approval of Meeting Minutes**

The Board of Directors was asked to approve the minutes from its September 27, 2024, meeting.

#### **3. Policy Advisory Committee Actions**

The Board of Directors was asked to ratify the actions taken by the Policy Advisory Committees since the last Board meeting.

#### **4. Meetings and Events Attended on Behalf of SANDAG**

This report provided an update on the meetings and events attended by Board members.

#### **5. FY 2025 Proposed Program Budget Amendment: State Route 125 Toll Removal Analysis**

The Board of Directors was asked to approve an amendment to the FY 2025 Program Budget to allocate funds and create a new Capital Improvement Program project number to develop a Project Initiation Document and Preliminary Environmental Analysis Report and evaluate benefits and burdens to social equity populations for the State Route 125 corridor.

Public Comments: Alan C., No. 5; Truth, Nos. 2-5; Mark, Nos. 2-5; Phone #813, Nos. 2-5; and Paul the Bold, Nos. 2-5.

A motion was made by Chairwoman Vargas, with a second by Councilmember Chavez, for the Board to vote to approve the Consent Agenda, as amended removing Item No. 5, FY 2025 Proposed Program Budget Amendment: State Route 125 Toll Removal Analysis, with direction to staff to bring that item back to the next scheduled meeting.

Chairwoman Vargas directed staff to bring a financial analysis detailing the impacts of immediately removing tolls on SR 125 to the next scheduled meeting.

Action: A substitute motion was made by Councilmember Vivian Moreno (City of San Diego), and a second by Councilmember Chavez, to approve an amendment to the FY 2025 Program Budget to allocate funds and create a new Capital Improvement Program project number to develop a Project Initiation Document and Preliminary Environmental Analysis Report for the SR 125 corridor and move the balance of the consent agenda.

The motion passed.

Yes: Chairwoman Vargas, Second Vice Chair Lesa Heebner (Solana Beach), Councilmember Burkholder, Councilmember Carolina Chavez (Chula Vista), Councilmember John Duncan (Coronado), Deputy Mayor Gaasterland, Councilmember Steve Goble (El Cajon), Mayor Tony Kranz (Encinitas), Councilmember Joe Garcia (Escondido), Councilmember Jack Fisher (Imperial Beach), Councilmember Jack Shu (La Mesa), Mayor Racquel Vasquez (Lemon Grove), Councilmember Luz Molina (National City), Councilmember Rick Robinson (Oceanside), Councilmember Moreno, Mayor Rebecca Jones (San Marcos), and Deputy Mayor Katie Melendez (Vista).

No: Mayor John Minto (Santee).

Abstain: None.

Absent: Poway.

Closed Session Public Comments: Truth, Kathryn Rhodes, Paul the Bold, and Phone #813.,

Chairwoman Vargas recessed to closed session at 12:06 p.m.

### **Closed Session**

#### **6. Conference with Legal Counsel – Significant Exposure to Litigation Pursuant to Government Code Section 54956.9 (D)(2) (One Potential Case)**

The Board was briefed in closed session on potential claims related to the delivery of its toll operations back-office system.

Chairwoman Vargas reconvened to open session at 2:15 p.m.

Board Counsel Alfred Smith reported the following out of closed session: The Board met in closed session on Agenda Item No. 6, and there was no reportable action.

### **Reports**

#### **7. Back Office System Update**

Senior Director of Regional Planning Antoinette Meier, Director of Operations Lucinda Broussard, Director of Accounting and Finance Kimberly Trammel, and Technology Planning Manager Alex Estrella presented a progress update on the development and implementation of the new Tolling Back Office System.

Public Comments: Alan C., Truth, Kathryn Rhodes, Michael Brando, and Paul the Bold.

Action: Upon a motion by Councilmember Moreno, and a second by Councilmember Chavez, the Board of Directors voted to approve writing off uncollectable account receivable balances older than three years in two phases (as of June 30, 2024, and in coordination with the BOS data migration date.)

The motion passed.

Yes: Chairwoman Vargas, Second Vice Chair Heebner, Councilmember Burkholder, Councilmember Chavez, Councilmember Duncan, Deputy Mayor Gaasterland, Mayor Kranz, Councilmember Garcia, Councilmember Fisher, Councilmember Shu, Councilmember Molina, Councilmember Robinson, and Councilmember Raul Campillo (City of San Diego).

No: None.

Abstain: None.

Absent: El Cajon, Lemon Grove, Poway, Santee, San Marcos, and Vista.

Continued Non-Agenda Public Comments: Kathryn Rhodes, Paul the Bold, and Blair Beekman.

## **8. Adjournment**

The next Board of Directors meeting is scheduled for Friday, October 25, 2024, at 9 a.m.

Chairwoman Vargas adjourned the meeting at 3:04 p.m.

DRAFT

**Confirmed Attendance at SANDAG Board of Directors Meeting**

<b>Board of Directors</b>	<b>Title</b>	<b>Name</b>	<b>Attend</b>
Carlsbad	Councilmember	Melanie Burkholder (Primary)	Yes
Chula Vista	Councilmember	Carolina Chavez (Primary)	Yes
Coronado	Councilmember	John Duncan (Primary)	Yes
County of San Diego	Chairwoman	Nora Vargas (Primary)	Yes
County of San Diego	Supervisor	Joel Anderson (Primary)	No
Del Mar	Deputy Mayor	Terry Gaasterland (Primary)	Yes
El Cajon	Councilmember	Steve Goble (Alternate)(left 1:01pm)	Yes
Encinitas	Mayor	Tony Kranz (Primary)	Yes
Escondido	Councilmember	Joe Garcia (2nd Alternate)	Yes
Imperial Beach	Councilmember	Jack Fisher (Primary)	Yes
La Mesa	Councilmember	Jack Shu (Primary)	Yes
Lemon Grove	Mayor	Racquel Vasquez (Primary) (left 12:58 pm)	Yes
National City	Councilmember	Luz Molina (Primary)	Yes
Oceanside	Councilmember	Rick Robinson (Alternate)	Yes
Poway	Mayor	Steve Vaus (Primary)	No
City of San Diego	Councilmember	Raul Campillo (Alternate) (left 11:12am; return 12:06pm to end)	Yes
City of San Diego	Councilmember	Vivan Moreno (Alternate)	Yes
San Marcos	Mayor	Rebecca Jones (Primary) (left 2:15 pm)	Yes
Santee	Mayor	John Minto (Primary) (left 2:15 pm)	Yes
Solana Beach	Second Vice Chair	Lesia Heebner (Primary)	Yes
Vista	Councilmember	Katie Melendez (Primary) (left 2:15 pm)	Yes
Caltrans	Director	Everett Townsend	Yes
Metropolitan Transit System	Councilmember	Patricia Dillard (Alternate)	Yes
North County Transit District	Deputy Mayor	Jewel Edson (Primary)	No
Imperial County	Supervisor	Jesus Eduardo Escobar	No
U.S. Department of Defense	Executive Director	Dennis Keck (Primary)	Yes
Port of San Diego	Commissioner	Dan Malcolm (Primary)	No
SD County Water Authority	Director	Mel Katz (Primary)	No
SDCRAA	Director	Gil Cabrera	Yes
Mexico	Consul General	Alicia Kerber (Primary)	No
SCTCA	Chairwoman	Erica Pinto (Alternate)	Yes
Association of Planning Groups	Board Chair	Robin Joy Maxson	Yes



## Chief Executive Officer Delegated Actions

### Overview

Various Board Policies require the Chief Executive Officer to report certain actions to the Board of Directors monthly or upon taking specified actions.

### Action: Information

In accordance with various Board Policies, this report summarizes delegated actions taken by the Chief Executive Officer.

### Delegated Actions

**Investment Transactions:** [Board Policy No. 003](#), Section 11.2, states that a monthly report of all investment transactions shall be submitted to the Board. Attachment 1 contains the reportable investment transactions for September 2024.

### Fiscal Impact:

One security reached maturity for \$5 million and one security was purchased for \$5.05 million.

### Schedule/Scope Impact:

None

**Legal Matters:** [Board Policy No. 008](#), Section 6.1, authorizes the Office of the General Counsel or outside counsel to file documents and make appearances on behalf of the agency in court proceedings.

In the matter of He v. Metropolitan Transit System (Superior Ct. Case No. 2021-00002319), the following actions were taken by Bremer Whyte Brown & O'Meara on behalf of SANDAG:

- On September 4, 2024, attended an Ex Parte Hearing re Plaintiffs' request to continue hearing on Defendants' Motions for Summary Judgment
- On September 24, 2024, filed a Reply to Plaintiffs' Opposition to Motion for Summary Judgment and supporting documents
- On October 4, 2024, attended a Motion for Summary Judgment hearing

In the matter of Warrem v. SANDAG (Superior Ct. Case No. 2023-00050222), the following actions were taken by Quarles & Brady on behalf of SANDAG:

- On September 13, 2024, attended a Status Conference

In the matter of Osmon v. City of San Diego (Superior Ct. Case No. 2020-00018911), the following actions were taken by BDG Law Group on behalf of SANDAG:

- On September 6, 2024, attended a Case Management Conference

**On-Call Task Order Awards:** [Board Policy No. 017](#), Section 1, authorizes the Chief Executive Officer to enter into any agreements or take any other actions necessary to implement the budget items or other actions approved by the Board. One on-call task order valued at \$5 million or more was executed in September 2024. The delegated action(s) to report to the Board are summarized below:

Task Order No.	Vendor	Title/Project	Start Date	End Date	Award Amount	Competitive or Sole Source
S882177 TO 10	WSP USA Inc.	OME POE, Commercial Vehicle Enforcement Facility, and ITS, Phase 1 Final Design	09/04/2024	01/31/2026	\$30,355,864	Competitive

**Budget Modifications:** [Board Policy No. 017](#), Section 4.1, authorizes the Chief Executive Officer to enter into agreements not currently incorporated in the budget and make other modifications to the budget in an amount up to \$300,000 per project per fiscal year so long as the overall annual budget remains in balance. Actions taken since the last regular meeting of the Board are shown in Attachment 2.

**Plans, Specifications, and Estimates (PS&E) Design Approvals:** [Board Policy No. 017](#), Section 4.2, states a monthly report of all approvals of design PS&E for capital improvement projects shall be submitted to the Board of Directors. The PS&E for the following capital improvement project was approved.

- Uptown Bikeways: Washington Street and Mission Valley Bikeways Project, CIP 1223084

**Schedule Extensions:** [Board Policy No. 035](#), Section 4.3.1, authorizes the Chief Executive Officer to approve requests by grantees for time extensions on their project schedule of up to twelve months aggregate for good cause if the extension would not cause the project to miss a completion deadline. The delegated action(s) to report to the Board are summarized below:

*Environmental Mitigation Program Land Management Grant Program (EMP LMG)*

Contract No.	Grantee	Project	Extension (in Months)	From	To
S1125497	Otay Water District	San Miguel HMA Perimeter Fencing Restoration Project	3	9/16/2024	12/16/2024

**Regional Transportation Improvement Program Administrative Modification:** Regional Transportation Commission (RTC) Resolution No. RTC-2020-01 authorizes the Chief Executive Officer to approve administrative modifications to the Regional Transportation Improvement Program (RTIP). Changes are authorized by the requesting agencies by resolution or approved policy.

- Administrative Modification No. 17 was approved on September 12, 2024. Table 1 (Attachment 3) summarizes the changes made to 1 project listing in the region.

**Mario Orso, Chief Executive Officer**

Attachments: 1. Investment Securities Transactions Activity – September 2024  
2. Budget Transfers and Amendments – September 2024  
3. 2023 RTIP Amendment No. 17 – Table 1

**MONTHLY ACTIVITY FOR INVESTMENT SECURITIES TRANSACTIONS**  
**SEPTEMBER 1 THROUGH SEPTEMBER 30**

Transaction Date	Security/Coupon/Maturity Date	Par Value	Original Cost
<b>BOUGHT</b>			
9/10/2024	U S TREASURY NT 4.500% 3/31/26	\$ 5,000,000.00	\$ 5,051,383.94
	TOTAL BOUGHT:	<u>\$ 5,000,000.00</u>	<u>\$ 5,051,383.94</u>
<b>MATURED</b>			
9/10/2024	F F C B DEB 2.080% 9/10/24	\$ 5,000,000.00	\$ 5,079,870.00
	TOTAL MATURED:	<u>\$ 5,000,000.00</u>	<u>\$ 5,079,870.00</u>
<b>SOLD</b>			
	NO REPORTABLE SECURITIES FOR THIS MONTH		

**FY 2025 BUDGET TRANSFERS AND AMENDMENTS**  
in '000s

PROJECT NUMBER	PROJECT NAME	CURRENT BUDGET	NEW BUDGET	CHANGE	EXPLANATION
2347300	CJAM-S District USAO PSN 2022	\$178.3	\$182.7	\$4.4	Adjusting budget expenditure authority to match total funding awarded per contract.
2347500	CJAM-N District USAO PSN 2022	\$394.8	\$399.2	\$4.4	Adjusting budget expenditure authority to match total funding awarded per contract.
2347400	CJAM-C District USAO PSN 2022	\$886.8	\$894.2	\$7.4	Adjusting budget expenditure authority to match total funding awarded per contract.
3102900	Regional Infrastructure Incubator	\$1,700.0	\$1,750.0	\$50.0	Reward amount came in \$50k above the original \$1.7M budgeted for FY25

**Table 1 - Summary of Changes Report (\$000)**  
**2023 RTIP Amendment No. 17**

Project ID	Lead Agency	Project Title	Total Programmed Before	Total Programmed Revised	Cost Difference	Percent Change	Change Description
V11	Various Agencies	State Route 11	\$1,124,594	\$1,124,617	\$23	1%	<div>LEGEND:            ↑ Increase            ↓ Reduce            ↔ Revise            + Add new</div> ↑ and ↔ TransNet - Border between fiscal years; ↔ INFRA between fiscal years; ↔ Other Fed. - TIFIA between fiscal years; ↔ RSTP between fiscal years; ↔ SB1 - TCEP between fiscal years; + SB1 TCEP NHFP

**Abbreviation**

INFRA

RSTP

SB1 - TCEP

SB1 - TCEP - NHFP

TIFIA

TransNet - Border

**Fund Type**

Infrastructure for Rebuilding America (INFRA) Grant Program

Regional Surface Transportation Block Grant

Senate Bill 1 - Trade Corridor Enhancement Program

Senate Bill 1 - Trade Corridor Enhancement Program - National Highway Freight Program

Transportation Infrastructure Finance and Innovation Act

Prop A Extension - Border

## Policy Advisory Committee Actions

### Overview

[SANDAG Board Policy No. 001](#) delegates certain responsibilities to the Policy Advisory Committees to allow SANDAG to effectively address key public policy and funding responsibilities. All items delegated to the Policy Advisory Committees are subject to ratification by the Board of Directors. Below are the delegated actions taken by the Policy Advisory Committees that are subject to ratification.

The links provided below will navigate to the SANDAG web page where the meeting agenda and minutes (when available) will be posted.

### Action: **Approve**

The Board of Directors is asked to ratify the actions taken by the Policy Advisory Committees as noted in the report.

### Fiscal Impact:

None.

### Schedule/Scope Impact:

None.

### [Transportation Committee – October 18, 2024](#)

Adopted:

1. Resolution No. 2025-05, approving the FY 2025 State Transit Assistance claim amendment;
2. Resolution No. 2025-06, approving the FY 2024 State Transit Assistance claim amendment; and
3. Resolution No. 2025-07, approving the FY 2024 State of Good Repair claim amendment for the North County Transit District.

**Victoria Stackwick, Chief of Staff**

## Master Fund Transfer Agreement with Caltrans

### Overview

The Caltrans Master Fund Transfer Agreement (MFTA) is a comprehensive guide for managing federal and state-funded transportation planning projects under an Overall Work Program (OWP) Agreement. It details the administrative procedures for initiating and amending project-specific agreements, outlines the types of costs that are eligible for funding, and describes the payment process. The document also establishes general provisions regarding funding, audits, reporting, and compliance with state and federal law.

All MPOs are required by Caltrans to replace their current ten-year agreements that expire December 31, 2024. This agreement covers the use of federal and state funds, effective January 1, 2025, through December 31, 2034.

### Key Considerations

OWP Projects that are funded with state funds, or federal funds that are passed through by the state, require an MFTA for the state to reimburse SANDAG.

Caltrans has requested that all MPOs submit a board resolution clearly authorizing the 2025 MFTA no later than November 15, 2024, at which point Caltrans will send the final MFTA for execution.

### Next Steps

Pending the Board's adoption of Resolution No. 2025-08 and execution of the MFTA, the MFTA will replace the current ten-year agreement that expires December 31, 2024.

**Susan Huntington, Director of Financial Planning, Budgets & Grants**

Attachments: 1. Board Resolution No. 2025-08  
2. Draft 2025 MFTA

### Action: Adopt

The Transportation Committee recommends that the Board of Directors adopt Resolution No. 2024-08, authorizing the Chief Financial Officer to execute the Master Fund Transfer Agreement with Caltrans (2025-2035).

### Fiscal Impact:

The MFTA enables SANDAG to continue accessing and utilizing federal and state funds, providing a structure for their effective and efficient use. It establishes a framework for strategic financial management.

### Schedule/Scope Impact:

By renewing this agreement, SANDAG ensures that projects remain eligible for federal and state funding, thereby avoiding any funding disruptions. This renewal enables the optimal utilization of funds, greatly benefiting regional projects and maximizing their impact.

**Resolution No. 2025-08****Authorizing the Execution of the Master Fund Transfer Agreement for the Period of January 1, 2025, to December 31, 2034**

WHEREAS, the San Diego Association of Governments (SANDAG) has been designated by the State of California as the MPO for the San Diego Region; and

WHEREAS, SANDAG receives federal and state funding administered by the California Department of Transportation, Office of Regional and Community Planning; and

WHEREAS, the California Department of Transportation, Office of Regional and Community Planning, which administers the funds detailed in the Master Fund Transfer Agreement (MFTA), requires the execution of a Master Fund Transfer Agreement authorized by a resolution from the governing board of a local or regional agency; and

WHEREAS, SANDAG is an eligible recipient of federal, state, and local funding; and

WHEREAS, the Chief Executive Officer (CEO), Chief Financial Officer (CFO), and those with delegated authority are authorized to enter into contracts for grants awarded from federal, state, and local funding; and

WHEREAS, SANDAG intends to delegate the authority to execute any agreements and amendments to the CEO, CFO, and allow the CEO to further delegate signature authority as appropriate to maintain business continuity; and

NOW THEREFORE BE IT RESOLVED, that the Board of Directors of SANDAG hereby:

1. Authorizes the CFO or their designee to execute the Master Fund Transfer Agreement (MFTA) with the California Department of Transportation;
2. Agrees to comply with all conditions and requirements outlined in the MFTA, as well as applicable statutes, regulations, and guidelines for all state and federal funds administered by the California Department of Transportation, Office of Regional and Community Planning;
3. Authorizes the CEO, CFO, or their designee to undertake any further actions necessary to implement the MFTA, including executing amendments and other documents requiring the signature of an official representative of SANDAG.



PASSED AND ADOPTED this 25th of October 2024.

Attest:

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**Chair**

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**Secretary**

**Member Agencies:** Cities of Carlsbad, Chula Vista, Coronado, Del Mar, El Cajon, Encinitas, Escondido, Imperial Beach, La Mesa, Lemon Grove, National City, Oceanside, Poway, San Diego, San Marcos, Santee, Solana Beach, Vista, and County of San Diego.

**Advisory Members:** California Department of Transportation, Metropolitan Transit System, North County Transit District, Imperial County, U.S. Department of Defense, Port of San Diego, San Diego County Water Authority, Southern California Tribal Chairmen’s Association, and Mexico.

DRAFT

**STATE OF CALIFORNIA DEPARTMENT OF TRANSPORTATION  
DIVISION OF TRANSPORTATION PLANNING  
MASTER FUND TRANSFER AGREEMENT**

Recipient: San Diego Association of Governments a Metropolitan Planning Organization (MPO)

Effective Date of this Agreement: January 1, 2025

Termination Date of this Agreement: December 31, 2034

FUND SOURCES COVERED BY THIS AGREEMENT MAY INCLUDE ALL OR SOME OF THE FOLLOWING FUND SOURCES AS IDENTIFIED IN EACH ANNUAL OVERALL WORK PROGRAM AGREEMENT

- ◆ Federal Highway Administration (FHWA)--Metropolitan Planning (PL)
- ◆ FHWA State Planning and Research (SPR)--Partnership Planning
- ◆ Federal Transit Administration (FTA)--Metropolitan Planning Section 5303
- ◆ FTA State Planning and Research--Section 5304
- ◆ State Highway Account (SHA)
- ◆ State Rural Planning Assistance (RPA)
- ◆ Road Maintenance and Rehabilitation Account (RMRA)
- ◆ Any other Federal or State funds administered by and through the California Department of Transportation, Office of Regional and Community Planning

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This Master Fund Transfer Agreement (MFTA), effective as of the date set forth above, is by and between the signatory public entity identified above, hereinafter referred to as MPO [as authorized in section 134 of Title 23 of the United States Code (23 USC Section 134), section 450.104 of the Code of Federal Regulations (23 CFR section 450.104), and Part 200 of Title 2 of the Code of Federal Regulations (2 CFR Part 200)], and the State of California, acting by and through its Department of Transportation, hereinafter referred to as STATE. This MFTA supersedes all previous Master Fund Transfer Agreements issued to MPO by STATE for all these types of funds.

**RECITALS**

- A. These funds may include, without limitation, federal Consolidated Planning Grants, and any other Federal or State funds administered by and through the Department of Transportation, Office of Regional and Community Planning.

Consolidated Planning Grants consist of four federal funding types and sources: (i) FHWA

Metropolitan Planning (PL); (ii) FTA Metropolitan Planning (Section 5303), both of which are annually allocated to MPOs; (iii) FHWA State Planning and Research-Partnership Planning (SPR); and (iv) FTA State Planning and Research (Section 5304), the last two of which are discretionary grants awarded through a grant application solicitation process.

The State funds administered by the Office of Regional and Community Planning include but are not limited to: (i) State Rural Planning Assistance, (ii) State Highway Account (SHA); and (iii) Road Maintenance and Rehabilitation Account (RMRA) funds.

- B. Upon appropriation of funds and pursuant to Public Utilities Code (PUC) sections 99311 and 99311.1, STATE is required to pass-through Federal and State funds made available for transportation planning purposes to entities qualified to act as recipients of these funds in accordance with the intent of law and policy.
- C. STATE is also required to encumber Federal and State funds made available for planning purposes to entities qualified to act as recipients of these Federal and State funds in accordance with the intent of law and policy.
- D. STATE agrees to notify MPO annually in writing of the anticipated level of State and Federal Planning funds that may be available to MPO for each subsequent year's approved Overall Work Program, hereinafter referred to as OWP.
- E. STATE has prepared this MFTA, which hereby, together with the annual OWP and annual Overall Work Program Agreement, hereinafter referred to as the annual OWPA, found in APPENDIX A, set forth the entire terms and conditions under which these funds are to be expended by MPO for the fiscal year period of that annual OWP and annual OWPA.
- F. The provisions set forth in this MFTA shall only apply to funds administered in whole or in part through this agreement. No provisions of this MFTA shall extend to or govern the use of funds that are not allocated or transferred under this agreement.

## **ARTICLE 1-PROGRAM ADMINISTRATION**

### **Section 1. Overall Work Program and Overall Work Program Agreement**

- A. MPO agrees to develop and submit an annual draft OWP, in compliance with 23 CFR 420, 23 CFR 450, and FTA Circular 8100.1D, for approval by STATE, FTA and FHWA, as applicable. This submittal, due no later than each March 1, shall describe MPO's next fiscal year transportation planning program (fiscal year refers to the State fiscal year of July 1 to June 30).
- B. Each annual OWP and OWPA will expressly adopt and incorporate the terms and conditions of this MFTA by reference.
- C. MPO shall be responsible for the complete performance of the work contained in each OWP. All work shall be accomplished in accordance with applicable provisions of State and Federal law.

- D. MPO will annually include a signed "FHWA and FTA Metropolitan Transportation Planning Process Self-Certification" form, a signed FTA "Certifications and Assurances for FTA Assistance" form (refer to Article IV, Section 1), a signed "California Department of Transportation Debarment and Suspension" form, and a signed "Disclosure of Lobbying Activities" form in each annual OWP (APPENDIX E).
- E. The annual OWPA is the approved OWP encumbrance document. Disbursement of funds by STATE will occur only after the execution of this MFTA; approval of the annual OWP by STATE, the FTA and FHWA; and execution of the annual OWPA. Funds will not be encumbered or reimbursed by STATE to MPO until the annual OWPA has been executed and the State Budget for that fiscal year has been passed.
- F. No funds of any nature are allocated or encumbered in this MFTA unless included in an adopted and approved OWP by means of an approved and fully executed annual OWPA or OWPA amendment. Costs incurred by MPO prior to OWP approval or conditional approval are incurred at MPO's risk and will not be reimbursed until State and Federal approval.
- G. MPO shall request and obtain from the STATE the final annual allocation amount for FHWA PL and FTA 5303. MPO is encouraged to program the full annual allocation amount by means of an approved and fully executed OWP/A amendment, no later than May 1 of each fiscal year. Funds not programmed by MPO for that fiscal year will lose Obligation Authority (OA) and be subject to Federal rescission. MPO will not be able to use the unprogrammed OA prior to submitting a justification to STATE and obtaining approval from both STATE and the Department of Transportation, Office of Federal Resources.
- H. MPO agrees to satisfactorily complete all work element tasks, projects, and products as described in each approved annual OWP financed with State or Federal funds and encumbered by STATE via the annual OWPA.
- I. MPO will identify in sufficient detail to indicate who (e.g., State, MPO, public transit operator, local government, or consultant) will complete the activities and products in the OWP work elements, including all work that is to be completed through a third-party contract and funded, in whole or in part, under the terms and conditions of this Agreement.
- J. STATE agrees to pass-through available funds and to reimburse allowable costs incurred in executing the tasks, projects, and products specified in the annually approved OWP funded from State and Federal sources and will be encumbered by STATE.
- K. Only work performed during the term of, and consistent with, the work elements in the OWP may be reimbursed. Reimbursements are based upon the fiscal year, July 1 to June 30. All work performed after the end of each fiscal year (June 30) is subject to the approved OWP and annual OWPA for that corresponding fiscal year and reimbursed from the corresponding fiscal year budgeted funds.
- L. MPO may incur costs against its approved annual OWP and may submit Requests for Reimbursement with the understanding that STATE is unable to approve any payments for

reimbursement until such time as funds are included in that fiscal year's annual State Budget which is passed by the Legislature and signed by the Governor.

- M. MPO shall use non-federal funds to finance the local share of eligible costs to ensure compliance with all applicable matching requirements for federal funds described in this MFTA and encumbered against the annual OWPA. Credit for local match will be allowed only for work performed during the approved term of each annual OWPA. Third-party "in-kind" contributions are allowed as local match, in accordance with the provisions of 23 CFR 420.119 and 2 CFR 200.306.
- N. MPO further agrees to ensure that amendments to a previously approved OWP and annual OWPA are adopted by the MPO Board of Directors and subsequently approved by STATE, FTA, and FHWA, as applicable, prior to initiating any work identified in those amendments; however, MPO is not required to pause work that was previously authorized. Changes requiring amendments generally include adding, deleting, or revising a work element; adding funds to or deleting funds from a work element; incorporating carryover funds; or altering the scope of work. Administrative amendments are not required to be adopted by the MPO Board of Directors. If a work element or project cannot be completed as originally approved, MPO will report this in its Quarterly Progress and Expenditure Report and must amend the OWP/annual OWPA accordingly. Amendments to the OWP and annual OWPA must be submitted to STATE and be fully executed no later than May 1 each year. Through administrative amendment, MPO will notify STATE via mail or electronic mail of administrative OWP changes that do not affect overall funding, scope of work, or project schedule.
- O. MPO acknowledges and agrees that MPO is the sole control and manager of the work proposed in the OWP and is solely responsible for complying with the funding and use restrictions established by State and Federal law and this MFTA.
- P. MPO shall be free to copyright the material developed under work items identified in the OWP provided that STATE and FHWA/FTA, as applicable, reserve a royalty-free, nonexclusive and irrevocable license to reproduce, publish or otherwise use, and authorize others to use, that work for government purposes.

## **Section 2. Quarterly Progress and Expenditure Reports**

- A. MPO agrees to submit to STATE, no later than thirty (30) calendar days after the close of each of the first three quarters, Quarterly Progress and Expenditure Reports that include all work elements for transportation planning tasks, projects, and products funded wholly or in part by any of the fund sources listed in the "Recitals" section of this MFTA. MPO agrees to submit to STATE the Quarterly Progress and Expenditure Report for each fourth quarter no later than sixty (60) calendar days after the close of the quarter. STATE may withhold payment of the final Request for Reimbursement submitted pending the submission of the fourth quarter Quarterly Progress and Expenditure Report.

In accordance with the latest adopted Regional Planning Handbook, Quarterly Progress and

Expenditure Reports submitted to STATE will identify all projects by work element number and title and shall contain, at a minimum the following:

- A brief narrative describing work progress, progress in adhering to schedules, and schedule changes;
- A list of tasks and products completed during the quarter;
- Percent comparison of actual performance with work element-level goals and deliverables;
- Status of expenditures by work element, funding source, and type, in a format compatible with the work program, including a comparison of budgeted (approved) amounts and actual costs incurred;
- Other pertinent supporting information, such as major products, challenges, etc.

- B. STATE reserves the right to deem incomplete any Quarterly Progress and Expenditure Report that does not sufficiently document the above-required information and may withhold payment of Requests for Reimbursement submitted pending the submission of required documentation.

## **ARTICLE II - ALLOWABLE COSTS AND REIMBURSEMENT**

### **Section 1. Requests for Reimbursement**

- A. Requests for Reimbursement must conform to either subpart 1 or subpart 2 hereinbelow for the entire State fiscal year:

1. MPO shall prepare and electronically submit to STATE, not more frequently than once a month, but at least quarterly, one signed Request for Reimbursement of actual allowable costs incurred and paid (expended) by MPO consistent with work elements described in the OWP (conforming to the format provided in APPENDIX B) and including the information required in part B of this section. The amount billed per each work element is not to exceed the total amount authorized for that work element in the OWP. Each expenditure by work element must meet the minimum required or contracted local match, if applicable, on every Request for Reimbursement. Reimbursements under this MFTA will be allowed if based upon actual costs expended and supported by MPO's accounting system. MPO must not only have incurred the allowable project cost on or after the effective date of the annual OWPA and on or before its termination date but must also have paid those expenses.
2. MPO shall prepare and electronically submit to STATE, not more frequently than once a month, but at least quarterly, one signed Request for Reimbursement of actual allowable costs incurred by MPO. This submission must be consistent with work elements described in the OWP (conforming to the format provided in APPENDIX B) and include the information required in part B of this section. The amount billed per each work element is not to exceed the total amount authorized for that work element in the OWP. Each expenditure by work element must meet the minimum required or contracted local match, if applicable, on every Request for Reimbursement. Reimbursements under this MFTA will be allowed if based upon actual costs incurred and supported by the MPO accounting

system. The MPO accounting system must adhere to Generally Accepted Accounting Principles. This adherence enables the determination of allowable incurred costs by accruing due to the costs billed to the MPO and recognized by the MPO as valid, undisputed, due, and payable.

3. By submitting accrued but unpaid costs for reimbursement, MPO agrees that within ten (10) working days of receipt of STATE's reimbursement, the full amount of all cost items submitted as reimbursable accrued costs shall be paid to each billing entity. Any reimbursed accrued cost not paid within this ten (10) working day grace period shall accrue interest payable to STATE at the then present interest rate established by the State Treasurer's Pooled Money Investment Account. Interest incurred must be timely remitted to STATE. Reimbursed incurred costs not paid to the billing entities by MPO within forty-five (45) days of MPO's receipt of STATE's reimbursement will thereafter be deemed unallowable. All unallowable costs must be immediately remitted to STATE. MPO agrees to submit a revised Disadvantage Business Enterprises Utilization Report (ADM 3069) as soon as reimbursement occurs.

If MPO is found, through audit or other means, not to have paid a billing entity its invoiced sums then owed within the ten (10) working day grace period, MPO must immediately revert to the reimbursement process described in subpart 1 above.

- B. In order to receive reimbursements, MPO agrees to furnish with each billing, at a minimum, the information provided for in APPENDIX B3, a detailed financial management system report from the MPO accounting system which denotes those reimbursable costs, as well as those used for local match, were either expended or incurred, as applicable.
- C. STATE agrees to make reimbursements to MPO, in conformance with Federal regulations, as promptly as STATE fiscal procedures will permit upon the receipt of a signed and electronically submitted Request for Reimbursement (conforming to the format provided in APPENDIX B) that includes all required information, as applicable, (conforming to the format in section B) of actual allowable costs incurred for the period of time covered by that Request for Reimbursement. Incomplete or inaccurate requests for reimbursement shall be returned to MPO unapproved for correction as soon as errors are discovered.
- D. No State and/or Federal funds administered under this MFTA will be dispersed on the advance basis defined in 2 CFR 200.305.

## **Section 2. Travel and Per Diem Reimbursement**

- A. Payments to MPO for travel and subsistence (per diem) expenses of MPO staff and its contractors and subcontractors claimed for reimbursement using funds administered through this Agreement or as local match credit shall not exceed rates authorized to be paid non-state employees under current State Department of Human Resources (CalHR) rules unless written verification is supplied that government hotel rates are not commercially available to MPO, or its contractors, its subcontractors, and/or its subrecipients, at the time and location required as specified in the California Department of Transportation's Travel Guide Exception Process. The requirements of



this section shall only apply to direct project costs and do not extend to indirect costs allocated through a federally approved Indirect Cost Rate Proposal.

### **Section 3. Final Request for Reimbursement and OWP Closeout Documentation**

- A. MPO shall electronically submit an OWP/annual OWPA closeout documentation package and OWP final products to STATE no later than August 31<sup>st</sup> of each fiscal year. The closeout package shall conform to the format provided in APPENDIX C.
- B. The closeout package must be attached to a transmittal letter, typed on MPO letterhead. Failure to submit these documents by August 31<sup>st</sup> of each fiscal year may result in STATE withholding future apportionments and/or allocations to MPO. STATE election not to withhold future apportionments and/or allocations immediately after the end of one fiscal year shall not limit STATE ability to initiate subsequent withholdings.
- C. Upon receipt of the required closeout documentation and OWP final products, STATE will issue a reconciliation letter to MPO stating the amount of unspent funds available to be carried over to the subsequent year's OWP. MPO may amend some or all of these funds into the OWPA only upon signature of the reconciliation letter by the MPO executive director or his or her appointee, and submittal of the signed letter to STATE. Any funds that are identified in the reconciliation letter, but not programmed by May 1 each year in which the letter is issued, will be forfeited.

### **Section 4. Funding Contingencies**

- A. All obligations of STATE under the terms of the MFTA and each annual OWPA are subject to the availability of Federal and State funds, appropriation of resources by the Legislature, and the annual passage of the State Budget. The authorization and obligation of these funds by outside entities may be terminated, limited or otherwise adversely affected by factors which may include, but are not limited to, changes in State or Federal law regarding the encumbrance and reimbursement of the funds provided by each annual OWPA and this MFTA.

## **ARTICLE III - AUDITS AND REPORTS**

### **Section 1. Cost Principles**

- A. MPO agrees to comply with 2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (2 CFR Part 200), as applicable.
- B. MPO agrees, and will require that its contractors, subcontractors, and subrecipients be obligated to agree, that (a) the Contract Cost Principles and Procedures, 48 CFR, Federal Acquisition Regulations System, Chapter 1, Part 31, et seq., shall be used to determine the allowability of individual project cost items (subrecipients shall refer to, 2 CFR Part 200); and (b) all parties shall comply with Federal administrative procedures in accordance with 2 CFR Part 200. Every sub-recipient receiving project funds as a contractor, subcontractor, or sub-grantee under this MFTA shall comply with Federal administrative procedures in accordance with 2 CFR Part 200.



- C. MPO agrees and shall require that all of its agreements with contractors, subcontractors, and subrecipients funded in whole or in part with funds administered through this MFTA contain provisions requiring adherence to this section in its entirety, as applicable.

## **Section 2. Indirect Cost Agreement and Cost Allocation Plan (ICAP)**

- A. Prior to MPO seeking reimbursement of indirect costs, MPO must prepare and submit annually to STATE for review and acceptance an indirect cost rate proposal and a central service cost allocation plan (if any) in accordance with 2 CFR, Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards or applicable cost principles and Local Program Procedures Manual (Chapter 5).
- B. Prior to MPO seeking reimbursement of subrecipient indirect costs, and when subrecipient cognizant federal agency, as defined in 2 CFR part 200, is USDOT and/or STATE, MPO agrees and will require subrecipient to comply with section 2A.
- C. Prior to MPO seeking reimbursement of subrecipient indirect costs, and when subrecipient ICAP is approved by a cognizant federal agency other than USDOT, MPO agrees and will require subrecipient to submit to STATE a copy of the cognizant agency approval, the approved proposal, plan, subsidiary worksheets, and other relevant data on an annual basis as evidence of the approval.
- D. If a submitted ICAP does not meet the requirements of 2 CFR Part 200, and is determined to be insufficient, STATE will advise MPO of additional documentation or changes needed to meet Federal and State requirements. MPO agrees to provide requested documentation or required changes, and if MPO is non-compliant the submissions may be returned to MPO if requested documentation is not provided or required changes are not made.
- E. Material audit adjustments will require reimbursement to STATE or adjustment to subsequent years ICAPs if proposals are later found to have included costs that are unallowable as specified by law or regulation, or the terms and conditions of this MFTA.
- F. MPO agrees and shall require that all its agreements with subrecipients funded in whole or in part with funds administered through this MFTA contain provisions requiring adherence to this section in its entirety, as applicable.

## **Section 3. Record Retention/Audits**

- A. MPO, its contractors, subcontractors and sub-recipients, agree to comply with Title 2, Code of Federal Regulations (CFR), Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards. MPO shall maintain, and shall require its subrecipients, contractors and its subcontractors to maintain all source documents, books, records and supporting documents connected with their performance of OWP work initiated under this MFTA and each applicable annual OWPA for a minimum of five (5) years from the date of final payment to MPO or, if an audit is initiated within that timeframe, until audit resolution is achieved for each annual OWPA, whichever is later, and shall make all such supporting

information available for inspection, copying and audit by representatives of STATE, the California State Auditor, or the Federal Government upon request. Copies will be made and furnished by MPO, its contractors, its subcontractors and sub-recipients upon request made by STATE or its agents at no cost to STATE. Scanned original documents in electronic form are suitable to meet this requirement.

- B. MPO shall establish and maintain, and shall require that its subrecipients, contractors and subcontractors shall establish and maintain, an accounting system conforming to Generally Accepted Accounting Principles (GAAP) to support Requests for Reimbursement which segregate and accumulate the costs of work elements by line item (i.e. direct labor, other direct costs, subrecipients/subcontractor, etc.) and enable the determination of expenditures at interim points of completion, and provide support for reimbursement payment vouchers or invoices.
- C. For the purpose of determining compliance with Government Code Section 8546.7, in connection with the performance of MPO contracts and/or agreements with third parties, MPO, MPO subrecipients, contractors, and subcontractors which are funded in whole or in part with the funds administered through the this MFTA, shall each maintain and make available for inspection all books, documents, papers, accounting records, and other evidence pertaining to the performance of such contracts and/or agreements, including, but not limited to, the costs of administering those various contracts and/or agreements. All the above referenced parties shall make such contracts and/or agreements available at their respective offices at all reasonable times during the entire period of each annual OWPA and for five (5) years from the date of final payment to MPO or, if an audit is initiated within that timeframe, until audit resolution is achieved for each annual OWPA, whichever is later. STATE, the California State Auditor, or any duly authorized representative of STATE or the United States Department of Transportation, shall each have access to any books, records, and documents that are pertinent to the fulfillment of the contracts/ and/or agreements for audits, examinations, excerpts, and transactions, and MPO shall furnish copies thereof if requested.
- D. Where applicable, MPO agrees to comply with audit requirements for third party contractors, subcontractor and subrecipients in accordance with STATE Local Assistance Procedure Manual, Chapter 10 or any successor thereto.
- E. MPO agrees to include all costs associated with this MFTA, OWP and annual OWPA, and any amendments thereto; to be examined in the annual audit and in the schedule of activities to be examined under MPO single audit prepared in compliance with 2 CFR Part 200, subpart F. MPO is responsible for assuring that the Single Auditor has reviewed the requirements of this MFTA, the OWP and the annual OWPA. Copies of said audits shall be submitted to STATE.
- F. When conducting an audit of the costs and match credits claimed under the provisions of each annual OWPA and this MFTA, STATE will rely to the maximum extent possible on any prior audit of MPO pursuant to the provisions of State and Federal law. In the absence of such an audit, work of other auditors will be relied upon to the extent that work is acceptable to STATE when planning and conducting additional audits.
- G. MPO agrees to furnish documentation to STATE supporting this requirement that all its

agreements with contractors, subcontractors, and subrecipients funded in whole or in part with funds administered through this MFTA do contain provisions requiring adherence to this section in its entirety, as applicable.

- H. Neither the pendency of a dispute nor its consideration by STATE will excuse MPO from full and timely performance in accordance with the terms of this MFTA, the OWP, and the annual OWPA.

## **ARTICLE IV - MISCELLANEOUS PROVISIONS**

### **Section 1. Federal Certifications and Assurances**

- A. MPO shall comply with the FHWA "Metropolitan Transportation Planning Process Self-Certification" requirements in accordance with 23 CFR 450.334 and the Infrastructure Investment and Jobs Act (IIJA) Public Law 117-58) and the successors thereto. This certification is provided annually by FHWA and FTA. It may include, but is not limited to:
- I. 23 U.S.C. 134, 49 U.S.C. 5303, and subpart C of 23 part 450;
  - II. In nonattainment and maintenance areas, sections 174 and 176 (c) and (d) of the Clean Air Act, as amended (42 U.S.C. 7504, 7506 (c) and (d)) and 40 CFR part 93;
  - III. Title VI of the Civil Rights Act of 1964, as amended (42 U.S.C. 2000d-1 and 49 CFR Part 21;
  - IV. 49 U.S.C. 5332, prohibiting discrimination on the basis of race, color, creed, national origin, sex, or age in employment or business opportunity;
  - V. Section 1101 (b) of the FAST Act (Pub. L. 114-94) and 49 CFR part 26 regarding the involvement of disadvantaged business enterprises in USDOT funded projects;
  - VI. 23 CFR Part 230, regarding the implementation of an equal employment opportunity program on Federal and Federal-aid highway construction contracts;
  - VII. The provisions of the Americans with Disabilities Act of 1990 (42 U.S.C. 12101 et seq.) and 49 CFR parts 27, 37, and 38;
  - VIII. The Older Americans Act, as amended (42 U.S.C. 6101, prohibiting discrimination on the basis of age in programs or activities receiving Federal financial assistance;
  - IX. Section 324 of title 23 U.S.C. regarding the prohibition of discrimination based on gender; and

- X. Section 504 of the Rehabilitation Act of 1973 (29 U.S.C. 794) and 49 CFR part 27 regarding discrimination against individuals with disabilities.
- B. MPO shall comply with the annual FTA "Certifications and Assurances for FTA Assistance," including "Certifications and Assurances Required of Each Applicant" and the "Lobbying Certification" in compliance with 49 U.S.C. Chapter 53; published annually in the *Federal Register*, and found online at <https://www.transit.dot.gov>.
- The Federal Certification may include, but is not limited to the following areas under "Assurances Required of Each Applicant:"
1. Standard Assurances
  2. Standard Assurances: Additional Assurance for Construction Projects
  3. Procurement
  4. Suspension and Debarment
  5. Coronavirus Response and Relief Supplemental Appropriations Act, 2021, and CARES Act Funding
  6. American Rescue Plan Act Funding
- C. MPO shall comply with the "California Department of Transportation Debarment and Suspension Certification" as required by U.S. DOT regulations on governmentwide Debarment and Suspension (non-procurement), 49 CFR 29.100.
- D. Copies of these annual Certifications and Assurances shall be included by MPO in each final OWP.
- E. MPO shall comply, and shall require its contractors, subcontractors, and subrecipients receiving funds or entering into agreements funded in whole or in part with funds administered through this MFTA, to comply, with these Certifications.
- F. MPO agrees to furnish documentation to STATE to support this requirement that all its agreements with contractors, subrecipients and subcontractors funded in whole or in part with funds administered through this MFTA, do contain provisions requiring adherence to this section in its entirety, as applicable.

## **Section 2. Disadvantaged Business Enterprise (DBE) Requirements**

- A. As mandated by 49 CFR Part 26, MPO shall require that its contractors, subcontractors, and subrecipients do not discriminate on the basis of race, color, national origin, or sex in the award, administration, and performance of any FHWA/FTA fund-assisted contract or in the

administration of MPO DBE program.

- B. MPO DBE program, as required by 49 CFR Part 26 and as approved by STATE, is incorporated by reference into this MFTA. Implementation of this program is a legal obligation and any failure by MPO to adhere to its terms shall be treated as a violation of this MFTA. Upon notification to the recipient of its failure to carry out its approved program, the US DOT may impose sanctions as provided for under Part 26 and may, in appropriate cases, refer the matter for enforcement under 18 U.S.C. 1001 and/or the Program Fraud Civil Remedies Act of 1986, 31 U.S.C. 3801 et seq. and 49 CFR Part 26.13(a).
- C. As required by 49 CFR part 26, the contract language in APPENDIX D relating to DBE requirements must be incorporated into all contracts funded in whole or in part with funds authorized in this Agreement.

### **Section 3. Non-Discrimination Clause**

- A. In the performance of work undertaken pursuant to this MFTA, the MPO and its subcontractors shall not deny the contract's benefits to any person on the basis of race, religious creed, color, national origin, ancestry, physical disability, mental disability, medical condition, genetic information, marital status, sex, gender, gender identity, gender expression, age, sexual orientation, or military and veteran status, nor shall they discriminate unlawfully against any employee or applicant for employment because of race, religious creed, color, national origin, ancestry, physical disability, mental disability, reproductive health decisionmaking, medical condition, genetic information, marital status, sex, gender, gender identity, gender expression, age, sexual orientation, or military and veteran status. MPO shall insure that the evaluation and treatment of employees and applicants for employment are free of such discrimination.
- B. MPO shall comply with the provisions of the Fair Employment and Housing Act (Government Code, Section 12900 et seq.), the regulations promulgated thereunder (California Code of Regulations, Title 2, Section 11000 et seq.), the provisions of Article 9.5 Chapter 1, Part 1, Division 3, Title 2 of the Government Code (Government Code, Section 11135-11139.8), and the regulations or standards adopted by the awarding state agency to implement such article. The applicable regulations of the Fair Employment and Housing Commission implementing Government Code, Section 12990 (a-f), set forth in Chapter 5 of Division 4 of Title 2 of the California Code of Regulations, are incorporated into this MFTA by reference and made a part hereof as if set forth in full.
- C. MPO shall permit access by representatives of the Civil Rights Department and STATE upon reasonable notice at any time during the normal business hours, but in no case less than 24 hours' notice, to such of its books, records, accounts, and all other sources of information and its facilities as said Department or STATE shall require to ascertain compliance with this clause.
- D. MPO and MPO's contractors, subcontractors, and/or subrecipients shall give written notice of their obligations under this clause to labor organizations with which they have collective bargaining or other labor agreements.

- E. MPO shall include the non-discrimination and compliance provisions hereof in all agreements with its sub-recipients, contractors, and subcontractors, and shall include a requirement in all agreements with all of same that each of them in turn include a nondiscrimination and compliance provisions of this clause in all contracts and subcontracts the enter into to perform work under this MFTA.
- F. MPO shall comply with the nondiscrimination program requirements of Title VI of the Civil Rights Act of 1964. Accordingly, 49 CFR Part 21, and 23 CFR Part 200 are made applicable to this MFTA by this reference. Wherever the term "Contractor" appears therein, it shall mean MPO.

#### **Section 4. Federal Lobbying Activities Certification**

- A. MPO certifies, to the best of its knowledge and belief, that no State or Federal funds have been paid or will be paid, by or on behalf of MPO, to any person for influencing or attempting to influence an officer or employee of any State or Federal agency, a Member of the State Legislature or United States Congress, an officer or employee of the Legislature or Congress, or any employee of a Member of the Legislature or Congress in connection with the awarding of any State or Federal contract, the making of any State or Federal grant, the making of any State or Federal loan, the entering into of any cooperative agreement, and the extension, continuation, renewal, amendment, or modification of any State or Federal contract, grant, loan, or cooperative agreement.
- B. If any funds other than State or Federal funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any Federal agency, a Member of Congress, an officer or employee of Congress, or an employee of a Member of Congress in connection with this Federal contract, grant, loan, or cooperative agreement, MPO shall complete and submit Standard Form-LLL, "Disclosure of Lobbying Activities" in accordance with those form instructions.
- C. This certification is a material representation of fact upon which reliance was placed when this MFTA and each annual OWPA was entered into. Submission of this certification is a prerequisite for making or entering into this transaction imposed by section 1352, Title 31, U. S. Code. Any person who fails to file the required certification shall be subject to a civil penalty of not less than \$10,000 and not more than \$100,000 for each such failure.
- D. MPO also agrees by signing this MFTA that MPO shall require that the language of this certification be included in all contracts and subcontracts funded wholly or in part by any fund sources listed on Page 1 of this MFTA and which exceed \$100,000 and that all such subrecipients shall certify and disclose accordingly.

### **ARTICLE V - GENERAL PROVISIONS**

#### **Section 1. Contract Award**



- A. MPO, contractor, subcontractor and subrecipient contracts containing Federal and State planning funds are required to be bid and awarded in accordance with 2 CFR Part 200, and consistent with Local Assistance Procedure Manual, Chapter 10, or successors thereto as applicable. The requirements of this section apply to direct project costs and shall not apply to contracts included in MPO's federally approved Indirect Cost Rate Proposals.

## **Section 2. Contract Amendment**

- A. No amendments to the terms of this MFTA, any OWP or any annual OWPA shall be valid unless made in writing and signed by the individuals legally authorized to contractually bind the parties hereto. Each party agrees that it has had or will have the opportunity to seek review by and approval from its legal counsel of the original documents and any proposed alteration or variation. No oral understanding or agreement not incorporated herein shall be binding on any of the parties thereto. For the purposes of this MFTA, the Chief of the Office of Regional and Community Planning, Division of Transportation Planning, shall be the Contract Administrator for STATE.

## **Section 3. Adjudication of Disputes by Way of Administrative Proceedings**

- A. STATE hereby sets up an Administrative Procedure for adjudication of disputes that may arise when administering the program as defined by the terms and conditions of this Agreement.

MPO agrees to exhaust the administrative remedy prior to resorting to legal remedies. In case of disputes with STATE, MPO shall submit to the Chief of the Division of Transportation Planning, CALTRANS (DC PLANNING) or designee a written demand for a decision regarding the disposition of any dispute, arising under this Agreement. The DC PLANNING shall make a written decision regarding the dispute and will provide it to the MPO. The MPO shall have an opportunity to challenge the DC PLANNING determination but must make that challenge in writing, within ten (10) working days to the STATE Contract Officer or his/her designee. If the challenge is not made by MPO within the ten (10) day period, the DC PLANNING decision shall become the final decision of the STATE. If such a challenge is made, the DC PLANNING and MPO shall submit written, factual information and data in support of their respective positions to STATE Contract Officer within a timeframe established by the MPO at the time of challenge. The decision of the STATE Contract Officer or his/her designee shall be final, conclusive and binding regarding the dispute, unless MPO commences an action in court of competent jurisdiction to contest the decision in accordance with Division 3.6 of Title 1 of the California Government Code.

## **Section 4. Intercept Clause**

- A. Costs for which MPO receives reimbursement payment that are determined by a subsequent audit or other review by either STATE or Federal authorities to be unallowable under 2 CFR, part 200; or 48 CFR, Chapter 1, Part 31 are to be repaid to STATE by MPO within thirty (30) days of MPO receiving notice of audit findings. Should MPO fail to reimburse moneys due STATE within thirty (30) days of discovery or demand, or within such other period as may be agreed in writing between the Parties hereto, STATE is authorized to intercept and withhold future payments due

to MPO from STATE or any third-party source, including, but not limited to, the State Treasurer, the State Controller or any other fund source.

## **Section 5. Parties of Agreement**

- A. This MFTA, OWP, annual OWPA, and any related agreements are solely between the named parties thereto and no express or implied benefit to entities or individuals not a party thereto is intended or to be inferred. There are no third-party beneficiaries to or of this MFTA or any OWP, or annual OWPA or any other agreement pertaining hereto.

## **Section 6. Hold Harmless and Indemnification Clause**

- A. Neither STATE nor any officer or employee thereof is responsible for any injury, damage or liability occurring or arising by reason of anything done or omitted to be done by MPO, its officers, employees, agents, contractors, sub-recipients, or subcontractors under or in connection with any work, authority or jurisdiction conferred upon MPO under this MFTA and/or each annual OWPA. It is understood and agreed that, pursuant to Government Code section 895.4, MPO shall fully defend, indemnify and hold harmless STATE and its officers and employees from all claims, suits or actions of every name, kind and description brought forth under, including, but not limited to, tortuous, contractual, inverse condemnation or other theories or assertions of liability occurring by reason of anything done or omitted to be done by MPO, its officers, employees, agents, contractors, sub-recipients or subcontractors under this MFTA and each annual OWPA.
- B. Neither MPO nor any officer or employee thereof is responsible for any injury, damage or liability occurring or arising by reason of anything done or omitted to be done by STATE, its officers, employees, agents, contractors, subrecipients, or subcontractors under or in connection with any work, authority, or jurisdiction conferred upon to STATE under this MFTA. It is understood and agreed that pursuant to Government Code section 895.4, STATE shall fully defend, indemnify and hold harmless MPO, its officers and employees from all claims, suits, or actions of every name, kind and description brought forth under, including, but not limited to, tortuous, contractual, inverse condemnation or other theories or assertions of liability occurring by reason of anything done or omitted to be done by STATE, its officers, employees, agents, contractors, sub-recipients or subcontractors under this MFTA.

## **Section 7. Default**

- A. In the event that MPO (a) fails to comply with applicable Federal and State laws and regulations; (b) fails to timely proceed with OWP in accordance with the MFTA or OWPA; or (c) otherwise materially violates the terms and conditions of this MFTA and/or OWPA, STATE reserves the right to terminate all funding for that OWP, or a portion thereof. Any such termination shall be accomplished by delivery to MPO of a Notice of Termination, which notice shall become effective not less than thirty (30) days after receipt specifying the reason for the termination, the extent to which funding of work under this MFTA is terminated and the date upon which such termination becomes effective. During the period before the termination date becomes effective, MPO and



STATE shall meet to try to resolve any dispute. No such termination shall become effective if: (a) during the process described in Article V, Section 3, the termination is stayed, (b) within the thirty (30) day period after receipt of the Notice of Termination, MPO either cures the default, or (c) if that default is not reasonably susceptible to cure within said thirty (30) day period, STATE approves a MPO plan and MPO thereafter diligently completes the cure in a manner and timeline acceptable to STATE.

- B. If STATE terminates funding for OWP pursuant to the above paragraph A, STATE shall pay MPO the sum due MPO under the annual OWPA for eligible work performed prior to termination.

#### **Section 8. Termination**

- B. This MFTA shall remain in full force and effect until the termination date stated on Page 1 of this MFTA, unless superseded or terminated in conformance with Section 7 of this Article. All indemnification, document retention, audit, claims, and legal challenge articles will remain in effect until terminated or modified in writing by mutual agreement or expiry by statute of limitations.

STATE OF CALIFORNIA  
DEPARTMENT OF TRANSPORTATION

By: \_\_\_\_\_  
Contract Officer

Date: \_\_\_\_\_

**San Diego Association of Governments**

By: \_\_\_\_\_  
Chief Financial Officer

Date: \_\_\_\_\_

By: \_\_\_\_\_  
Attorney

Date: \_\_\_\_\_

APPENDICES

A Overall Work Program Agreement

B Request for Reimbursement

B2 Request for Reimbursement Support Documentation

C Closeout Documentation

D DBE Contract Language (required)

D2 DBE Semi-Annual Report

D3 DBE Awards and Commitments

D4 DBE Utilization Report

D5 DBE Good Faith Efforts and Documentation

E Federal Certifications and Assurances

F Board Resolution

**SANDAG**



# INVESTIGATION

DATE: October 7, 2024

TO: Chair Nora Vargas, Board of Directors  
Chair David Zito, Audit Committee  
SANDAG Board of Directors  
SANDAG Audit Committee  
Mario Orso, Chief Executive Officer  
Dawn Vettese, Chief Financial Officer  
Amberlynn Deaton, Deputy General Counsel  
Residents of San Diego County and Toll Users

FROM: Courtney Ruby, Independent Performance Auditor

SUBJECT: Office of the Independent Performance Auditor's State Route 125  
Toll Operations Companion Investigation into When ETAN's  
Significant Performance Issues Were Known, by Whom, and What  
Actions Occurred

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## Introduction and Background

The SR 125 investigation conducted by **Office of the Independent Performance Auditor** (OIPA) and released in March 2024 found ETAN's implementation of the Back-Office System (BOS) Fastlane was headed for trouble from the beginning. SANDAG executive management failed to address the situation in a timely manner, including informing the Board of Directors. The investigation recommended the Board and the public should be provided with an explanation as to why a Request for Proposals (RFP) process was not initiated a year sooner, and why the Board was instead presented with a request to authorize a sole source contract award on January 12, 2024.

## Request to Initiate a Companion Investigation

In May 2024, the Audit Committee passed a motion requesting the OIPA conduct an investigation to determine what members of SANDAG's Executive Team<sup>1</sup> and Board

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<sup>1</sup> Executive team members included former Chief Executive Officer (CEO) Hasan Ikhata, former Deputy CEO Ray Major, former Deputy CEO Coleen Clementson, former Chief Financial Officer (CFO) Andre Douzdjian, and former Chief Counsel John Kirk.

of Directors knew of ETAN's significant performance issues, when they knew, and what they knew. Earlier, on April 26, 2024, the Board of Directors requested the IPA perform this investigation.

## Objectives

The objectives of this investigation were to determine:

- 1) Who on the Executive Team and Board of Directors knew of the significant performance struggles ETAN was experiencing as referenced in the SR125 investigation conducted by OIPA and released in March 2024,
- 2) When they became aware of ETAN's significant performance issues,
- 3) What they knew, and
- 4) What actions were taken by SANDAG, if any, to address the issues.

## Findings

The investigation found:

1. OIPA did not find that any members of the Board of Directors were notified prior to late 2023 of ETAN's significant performance issues.
2. All members of the Executive Team were aware of ETAN's Back-Office System performance issues. However, the degree to which each Executive Team member understood the significance of performance issues appears to differ based upon their role, experience and proximity to State Route (SR) 125 operations, and overall direction by the former CEO related to operational matters.
3. In June 2022, SANDAG Executive Team members were either briefed by Fagan Consulting (Fagan) on the results of Fagan's BOS Risk Assessment on June 23, 2022, provided the briefing slides following the meeting with Fagan Consulting, or participated in a larger management meeting on June 30, 2022, to discuss SR 125, specifically with ETAN going forward. In July 2022 the two former Deputy CEOs, former CFO and former CEO were provided confidential copies of Fagan's BOS Risk Assessment Report.
4. Due to poor management, the critical time needed to issue a Back-Office System (BOS) Request for Proposals (RFP) to replace ETAN was lost, and instead SANDAG embarked on four different paths, some simultaneously, to address the operational crisis caused by ETAN's inability to meet critical contractual requirements. These paths demonstrated a wasteful use of public resources and a lack of transparency, accountability and internal coordination. The result was a hastily executed sole source contract award to Deloitte.

## History

Below are excerpts from the Office of the Independent Performance Auditor's Investigation Report on SANDAG's State Route 125 Toll Operations issued March 25, 2024:

FAGAN was contracted in spring 2022 to perform an operational risk assessment of SANDAG's back-office project with ETAN. The report stated:

*The SANDAG staff is concerned about ETAN's ability to fully deliver the current system. Additionally, the Otay Mesa project is scheduled to open in two years. Given the issues encountered on the current project, the SANDAG staff has reservations that ETAN will deliver for Otay Mesa.*

In June 2022, FAGAN briefed and recommended to members of SANDAG's Senior Executive Management to begin researching alternative procurement options due to significant concerns with ETAN. Shortly after this briefing, SANDAG's CFO communicated to FAGAN in an email:

*"it was really determined that we need to move away from ETAN (in particular for the new OME<sup>2</sup> Port of Entry, but also in time for SR-125 and I-15). So we need to take an item to our BOD (SANDAG Board of Directors) sooner than later so that we can get the team moving in a direction to prepare a new tolling RFP..."*

Senior Management did not take an item to the Board of Directors until October 2023, almost 16 months after FAGAN's June 2022 briefing.

The June 2022 briefing discussed above was delivered before the July 2022 release of the operational risk assessment. FAGAN's risk assessment includes an extensive list of significant cons if SANDAG continues with ETAN including:

- ETAN required considerable support from SANDAG staff to test and bring their system online.
- ETAN software development staff is limited (possible single point of failure if that person leaves ETAN).
- ETAN seemed to significantly under-estimate the actual development cost of the project, leaving them in a precarious financial position on this project.
- Based on a review of the project-level documents, it is not clear that ETAN knows how to manage a project of this magnitude.
- Much of the project and technical documentation is poorly written.

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<sup>2</sup> Otay Mesa East Port of Entry (OME)/State Route (SR) 11

- ETAN has limited experience in this type of software development (i.e., only two (2) operational back-office systems projects).
- ETAN seriously misrepresented the amount of development needed to implement SANDAG's system (RFP compliance matrix indicated >90% of the SANDAG requirements existed in their baseline software, while SANDAG staff told us that > 90% new development was a more realistic assessment).

Many of these points were reiterated in the interviews OIPA conducted, and the documents we reviewed. While all the points are troubling, we would like to highlight four of the points .

**Point 1:** ETAN software development staff is limited (possible single point of failure if that person leaves ETAN<sup>3</sup>).

**Point 2:** ETAN has limited experience in this type of software development (i.e., only two (2) operational back-office systems projects).

**Point 3:** ETAN seriously misrepresented the amount of development needed to implement SANDAG's system (RFP compliance matrix indicated >90% of the SANDAG requirements existed in their baseline software, while SANDAG staff told us that > 90% new development was a more realistic assessment).

**Point 4:** Much of the project and technical documentation is poorly written.

These points illustrate ETAN lacked the requisite experience going into the project, and it is unclear why these issues were not surfaced earlier or taken more seriously.

Fagan's July 2022 BOS Risk Assessment Report referenced above concluded SANDAG should continue the current contract with ETAN while procuring a new back office. Continuing with ETAN was considered a necessary interim step until SANDAG could acquire and stand up a new back-office system.

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<sup>3</sup> ETAN's project manager who possessed the software development expertise left the project in August 2022, less than 2 months after the SR 125 Go-live date.

## Investigation Findings

**FINDING 1:** *The Board of Directors were not made aware of ETAN's significant Back-Office System performance issues until late 2023.*

OIPA did not find any evidence that any members of the Board of Directors were aware of ETAN's significant performance issues prior to late 2023 when ETAN's financial reporting problems are disclosed to the Board of Directors in a closed session.

**FINDING 2:** *All members of the Executive Team were aware of ETAN's significant Back-Office System performance issues.*

All members of the Executive Team were aware of ETAN's Back-Office System performance issues. However, the degree to which each Executive Team member understood the significance of performance issues appears to differ based upon their role, experience and proximity to SR 125 operations, and overall direction by the former CEO related to operational matters.

In February 2022, former Chief Executive Officer (CEO), Hasan Ikhrata, delegated oversight of SR 125 Operations to the former Chief Financial Officer (CFO), Andre Douzdjian, while the Project Management Office Reorganization for Toll Operations was assigned to former Deputy Chief Executive Officer (CEO), Ray Major. The former CEO relied upon Andre Douzdjian, former CFO and Ray Major, former Deputy CEO mainly to address SR 125 operations. Other senior management team members confirmed the CEO reliance upon both Andre Douzdjian and Ray Major for SR 125.

During this investigation, Andre Douzdjian, former CFO stated:

“Following a June 2022 meeting with Fagan Consulting the recommendation was made to continue working with ETAN Tolling but begin searching for a new vendor to handle SR 125 and I-15 tolling right away. “

He also stated, “The topic of SR 125 came up - in weekly executive team meetings on Tuesdays if not every week, probably every other week.”

Coleen Clementson, former Deputy CEO at this time, also recalled the following being said at executive team meetings “Etan [would] say, let us work through this. Give us a chance ...and then a decision was made. Let's give them a chance.”

A senior staff member recounted from their June 30, 2022, meeting notes that “ETAN was working through bugs, but nothing was too major and there was some discussion around potentially utilizing another operator to take on OME transactions.”

Other senior staff members acknowledged conversations related to SR 125 were occurring during senior staff meetings at this time, however, they did not follow the discussions closely as it was outside their area of responsibility.

While the executive team members may not have had the same understanding of ETAN's performance issues or proximity to SR 125 operations, they did not differ regarding Hasan's authority to make decisions. An executive staff member stated, "Hasan believed ETAN's problems were "in his authority." This is evident on December 8, 2023, when Hasan's responded to the Board of Directors' question as to why they were not informed sooner. He said:

"You hire your staff to do their job and we were doing our jobs and we knew there were issues...Yeah, we knew there were some operational issues, but we thought the best approach is to overcome the mantle to get to the point where we couldn't get the financial statement, that's when we came to you in October. But yes, I made those decisions based on the authorities you offer me to make. And I don't think you want every time we have an operate small operational issue."

At the April 26, 2024 Board Meeting, Interim CEO Coleen Clementson stated:

"Many of you have been asking what's the story? What happened? And while I believe in looking back on all of this, people were making the best decisions with the information that they had... There were a lack of clear policies and procedures on how to address issues. Again, often we didn't have the technical expertise in place to be overseeing a lot of what was happening in the toll operations. And honestly, I think there's a culture at SANDAG to make things work no matter how hard it is. You just keep believing "we're going make this work, we're going to make this work, we're going to make this work." And it was no secret that the ETAN system was not working. There were bugs that were constantly being worked through."

and:

"Who knew about it? How were the discussions and then who made the decision. Ultimately, that was the CEO that made the decision. The CEO had a meeting with the CEO of ETAN, and they made an agreement that they were going to continue to work on this."

**FINDING 3:** *The Executive Team had knowledge of the significance of ETAN's performance issues in June 2022.*

In June 2022, SANDAG Executive Team members were either briefed by Fagan on the results of Fagan's BOS Risk Assessment on June 23, 2022, provided the briefing slides following the meeting with Fagan, or participated in a larger management meeting on June 30, 2022 to discuss SR 125, specifically with ETAN going forward. In



July 2022 the two former Deputy CEOs, former CFO and former CEO were provided confidential copies of Fagan's BOS Risk Assessment Report.

2022 Timeline:

**June 23:** Debrief on BOS Operational Risk Assessment by Ron Fagan and Christine Korenek of Fagan via TEAMS. Attendees: Hasan Ikhata, Andre Douzdjian, Ray Major.

**June 29:** Debrief slides provided by Andre Douzdjian to Hasan Ikhata, Ray Major and Coleen Clementson via email.

**June 30:** SR 125 Discussion Meeting called by former CEO. Meeting invite notes states: "Hasan is requesting this meeting to discuss SR-125, specifically with ETAN going forward. Please make this meeting a priority." All executive and some senior management<sup>4</sup> team members are present at this meeting.

**July 8:** Andre Douzdjian sends Fagan's BOS Assessment Report to Hasan Ikhata, Ray Major, and Coleen Clementson via email. Coleen Clementson responds via email to Andre Douzdjian "Thank you Andre. Good report and promising that they suggest we continue with ETAN until we have a new back office system. I am out of the office next week, so please proceed with me in the interest of time."

**July 14:** Hasan Ikhata holds meeting with Andre Douzdjian and Ray Major to discuss Fagan's report. Coleen Clementson is out of town.

**FINDING 4:** *Due to poor management, the critical time needed to issue a Back-Office System (BOS) Request for Proposals (RFP) to replace ETAN was lost, and instead SANDAG embarked on four different paths, some simultaneously, to address the operational crisis caused by ETAN's inability to meet critical contractual requirements. These paths demonstrated a wasteful use of public resources and a lack of transparency, accountability and internal coordination.*

This section highlights four different paths SANDAG embarked upon in response to Etan's significant performance issues and inability to meet critical contract requirements. SANDAG's actions provide insight into the organization's culture and leadership at the time—and the price paid in terms of public resources, trust and transparency.

The former CEO of the organization was known to place his focus on large strategic initiatives. In response to SR 125 several executive team members stated SANDAG's management culture was to "fix-it" when it came to operational concerns. The CEO's strategic focus and management's drive to "fix-it", combined with SANDAG giving ETAN additional time again to meet critical contract requirements, after years of

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<sup>4</sup> Senior management includes Director level staff.

delay, resulted in a greater loss of critical time to effectively manage the operational crisis and issue a timely RFP to replace ETAN's Back-Office System for the SR-125 and I-15.

SANDAG's Four Different Paths to manage the impacts of ETAN's significant performance issues

SANDAG embarked upon four different paths to address the impacts of ETAN's performance issues upon SR 125, I-15 and Otay Mesa East Port of Entry's (OME) imminent BOS needs.

In the late summer of 2022, SANDAG was evaluating how to address OME's BOS needs, continuing to work with ETAN to fix their significant problems, and onboarding a new Director of Regional Transportation Services.

ETAN's BOS contract included an option for ETAN to provide OME's BOS in addition to SR-125 and I-15, yet, given ETAN's inability to deliver critical contractual responsibilities for SR-125 and I-15, in August 2022, this option for OME was determined by SANDAG to no longer be viable.

When interviewed during this investigation, the CFO affirmed the following regarding ETAN, OME and SR 125 and I-15:

"Following a June 2022 meeting with Fagan Consulting the recommendation was made to continue working with ETAN Tolling but begin searching for a new vendor to handle SR 125 and I-15 tolling right away. The situation with ETAN was delicate as they only had two 2 clients at the time: SANDAG and Washington DOT. If ETAN believed they would be losing one of those clients, the executive team worried they may choose to discontinue operations and leave us in a bind. Due to the precarity of the situation, we did not want to give hints that we were seeking to replace ETAN and **decided to assert that the new system we would issue the RFP for would be used for Otay Mesa East (bold emphasis added by the OIPA).** The intention was to then have that contract ultimately cover SR 125 and I-15 as well."

In separate interviews, the former Deputy CEO, Ray Major, and former General Counsel, John Kirk, relayed similar accounts, that given ETAN's precarious situation, SANDAG's strategy was to assert a new RFP would be for OME<sup>5</sup>. The investigation did not find evidence that an RFP was being prepared to replace ETAN that would be inclusive of SR 125, I-15 and OME (A Regional Back-Office System) until February of 2023. Instead, the investigation found the OME team was evaluating its BOS needs independently from SR-125 and I-15.

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<sup>5</sup> Management's April 8, 2024, response to OIPA's SR 125 toll operations investigation released on March 25, 2024, stated that Fagan's BOS Risk Assessment recommended SANDAG immediately begin the BOS procurement process for OME, not SR 125 and I-15. OIPA addressed this inaccuracy in its April 24, 2024 response to Management's response. The explanation provided for this investigation cites the RFP to replace ETAN would focus on OME and later be converted to serve SR 125 and I-15.

Additionally, [OIPA documented in its April 24, 2024 response](#) that the Director of Regional Transportation Services was:

acting with a sense of expediency given the concerns regarding ETAN's viability, poor performance, and failure to deliver system requirements. This process included SANDAG speaking with Transportation Corridor Agencies (TCA) to see if they could immediately take over transaction processing if ETAN could no longer perform. This also included contacting potential vendors, scheduling software demos, and planning on-site visits to see actual "live" tolling systems.

Last, on August 6, 2023, SANDAG executed an amendment to Fagan's State Route 125 (SR 125) Toll Operational Risk Assessment contract (executed on May 6, 2022) to prepare a BOS transition plan.

Therefore, four paths emerged to address the impacts of ETAN's significant performance issues. Some of these paths occurred simultaneously while management continued to work with ETAN. The four paths are as follows:

At the end of 2022:

1. SANDAG's OME team, including the Director of Regional Transportation Services and former CFO, were evaluating its options for a BOS independent of SR 125 and I-15.
2. The Director of Regional Transportation Services begins initiating contact with potential tolling vendors.

Spring and Summer of 2023:

3. SANDAG staff members including the Director of Regional Transportation Services are preparing a scope of work to secure support services (consulting services) to prepare a regional BOS RFP.
4. The Director of Regional Transportation Services executes a contract amendment for Fagan to prepare a BOS transition plan.



### Path 1: OME's BOS

ETAN's BOS contract included an option for ETAN to provide OME's BOS in addition to SR 125 and I-15, however, as the extent of ETAN's issues became known, the OME team began to evaluate other options. The OME team conducted formal updates on their process and in **August 2022**, with the new Director of Regional Transportation Services and the former CFO in attendance, the OME team outlined two options for OME tolling going forward. One option was to procure a separate system for OME through a formal solicitation and the second option was to determine if a California Toll Operators Committee<sup>6</sup> (CTOC) agency could process OME's tolling transactions. By **January 2023**, they ruled out the CTOC option and focused on pursuing a separate BOS system for OME. The project update slide deck in **January 2023** stated, "Proceed with BOS via RFQ by **March 2023**."

While the investigation found documentation during this time that the OME team was evaluating how to address its tolling system needs considering ETAN's lack of performance, the investigation did not find evidence that SANDAG was strategically moving forward with an RFP for OME that would also be used as a regional BOS to include SR-125 and I-15.

When asked why the need to issue a new RFP was not immediately presented to the Board of Directors, the former CFO stated:

<sup>6</sup> The California Toll Operators Committee (CTOC) is a collaborative organization composed of California's toll facility operators/owners.

“The delay in agendizing this item occurred because of the complexity of the Otay Mesa East project. The project involves state and federal agencies along with Mexican government entities, and it slowed our ability to obtain the necessary information we needed to understand the requirements and specifications for the project and put together an RFP. We needed specific information to present this to the board and ensure the RFP issued could eventually be converted to cover SR 125 and I-15 as well, and that information gathering took much longer than anticipated.”

This statement is inconsistent with staff’s recollection. Staff’s work on the OME BOS solicitation was to acquire a separate system. If the Executive team desired this procurement to include, or be “converted” to include, SR 125 and I-15, this information was not shared with the staff working on the OME RFP process.

### **Path 2: Activities leading up to Sole Source Contract Award to Deloitte**

As included earlier in the report, the [OIPA’s April 24, 2024, Response to Management](#) included that the Director of Regional Transportation Services was:

acting with a sense of expediency given the concerns regarding ETAN’s viability, poor performance, and failure to deliver system requirements. This process included SANDAG speaking with Transportation Corridor Agencies (TCA) to see if they could immediately take over transaction processing if ETAN could no longer perform. This also included contacting potential vendors, scheduling software demos, and planning on-site visits to see actual “live” tolling systems.

In a January 9, 2024 email to the former Deputy CEO, Ray Major, the Director of Regional Transportation Services confirms the following firms or representatives were contacted:

P-Square Solutions thru Cubic  
BRIC thru Transportation Corridor Agencies  
Emovis  
Neology  
Deloitte and A-to-BE

### **2022-2023 Timeline:**

**December 14, 2022:** P Square Solutions reaches out to SANDAG to discuss needs for SANDAG Tolling BOS system. P Square Solutions is requested by Cubic to contact SANDAG.

**February 9, 2023:** SANDAG meets with Deloitte, invite states “Deloitte will share toll services and system offerings”

**April 20, 2023:** SANDAG meets with Deloitte and A-to-Be, email states “Deloitte and A-to-Be would like to present a demonstration and overview of our

alliance offerings of the MoveBeyond BOS and our D2C2 cloud-based contact center platform.

**May 9, 2023:** SANDAG meets with Emovis to demo vendor's tolling system.

**May 11, 2023:** SANDAG meets with Neology to demo vendor's tolling system.

**September 25, 2023:** SANDAG attends a workshop at Deloitte offices. Meeting agenda includes "discuss what delivery timeline looks like...transition needs, risk and mitigation strategies for cutover from Etan to Deloitte & A-to-Be."

**October 3, 2023:** Deloitte presents "SANDAG Deloitte Tolling Solution Executive Proposal" to SANDAG. All Executive Team members are listed as required attendees on the meeting invite in addition to the Director of Regional Transportation Services and the Director of Business and Information Technology. The presentation includes a "Core System Features, Pricing & Timeline" slide. The slide includes a 7-month timeline to system "go-live" with 12 more months for additional services (Tyler Tech GL interface is identified to occur between month 11 and 12), and a 5-year follow-on for O&M (operations and maintenance) for a \$28.7 million project cost.

**October 6, 2023:** Director of Regional Transportation Services emails Ray Major, Deputy CEO the site visit agenda for Portugal visit October 16-18, 2023. It includes the following: "Introduction and overview of A-to-Be's tolling operations, tolling technology and solutions. Technical tours and technology walk-throughs, as well as discussion on implementations and lessons learned. Will also include an overview discussion of the A-to-Be and Deloitte strategic teaming relationship and strategy."

**October 10, 2023:** Deloitte emails Director of Regional Transportation Services high level data migration plan. The plan includes MoveBeyond Rapid Deployment Plan (over 7 months) and Data Migration Approach.

**October 13, 2023: SANDAG Executive management informs the Board of Directors in closed session of ETAN's inability to produce financial reports.**

**October 16 -18, 2023:** Director of Regional Transportation Services and Ray Major, Deputy CEO visit Portugal. Andre Douzjdjian was originally scheduled to attend; however, a last-minute change occurred and Ray Major attends instead.

**October 31, 2023:** Director of Regional Transportation Services prepares sole source justification for Deloitte for Regional Back Office System Replacement Phase 1: Data Assessment \$450,000.

**November 6, 2023:** Deloitte awarded \$450,000 sole source for Regional Back Office System Replacement Phase 1.

**December 6, 2023:** Director of Regional Transportation Services forwards requirements from Deloitte and A-to-Be to several Finance team members and request Finance review “financial specs and the reporting associated with finance”.

**January 10, 2024:** (2<sup>nd</sup> request) Director of Regional Transportation Services forwards requirements from Deloitte and A-to-Be again to several Finance team members and asks them to review.

**January 12, 2024:** SANDAG Board of Directors authorize a \$28 million sole source contract to Deloitte and A-to-Be for Regional Back Office System Replacement.

The timeline shows the Director of Regional Transportation, and other SANDAG staff members are involved in discussions, meetings and tolling system demonstrations with potential vendors from late 2022 through the spring of 2023. From **September 2023** forward, SANDAG only communicates with Deloitte and A-to-Be. By the time the Board of Directors are informed of the significance of ETAN’s performance issues on **October 13, 2023**, Deloitte has presented their Executive proposal including the BOS implementation timeline and cost to SANDAG.

### Path 3: Regional BOS

From **February through September 2023** SANDAG staff, including the Director of Regional Transportation Services, prepared a scope of work for support services (consulting services) to assist in preparing an RFP for a Regional BOS to include SR-125, I-15, OME and future managed lanes and more. The scope includes project administration and management, oversight supporting services during BOS implementation and transition. The scope of work was to be solicited to qualified firms of Mobility and ITS On-Call Consultant Services under Category 1 – Strategic Planning Tolling and Category 6 – Systems Engineering Tolling. On **July 12, 2023**, the Contracts and Procurement Office held a Mobility Technology ITS on-call kick-off meeting in preparation for three mini-competition solicitations. A presentation slide from this meeting titled “Upcoming Projects - Currently identified for FY24” included the following:

#### Regional Back Office System Consultant Support Services

- Support SANDAG in overall planning, development, and project management activities during the implementation of a new Regional Back Office System (BOS).
- Estimated Issue Date: **August 2023**

The draft scope of work includes the following introduction:

SANDAG is seeking proposals from qualified firms of Mobility and ITS On-Call Consultant Services under Category 1 – Strategic Planning Tolling and



Category 6 – Systems Engineering Tolling to support the SANDAG Project Manager (PM) in the overall planning, development, and supporting project management activities during the implementation of a new Regional Back Office System (BOS); hereinafter referred to as “PROJECT”. These efforts may include assisting SANDAG in the preparation of contractor solicitation documents for the new Regional BOS as well as providing support for oversight of the new Regional BOS contractor through testing, go-live, and acceptance.

Task 2 in the draft scope of work states:

*Task 2: Preparation of Backoffice System (BOS) Solicitation Documents*

Consultant shall undertake necessary activities to support the SANDAG PM in the development of strategic planning documents (Concept of Operations, tolling policy, business rules, agreements, and roadmaps), system requirements, necessary solicitation documents (scopes of work, costs estimates, RFP package) for the new Regional BOS and providing support during the solicitation process. Key activities will include:

Item d. is listed under key activities:

d. Assist in the development of Regional BOS solicitation package:

- Develop scope of work for the Regional BOS RFP solicitation package. Consultant shall provide support to the SANDAG PM to develop the scope of services description for the Regional BOS. This includes necessary solicitation documents including evaluation criteria, technical attachments, project schedule, and independent cost estimates. Consultant shall coordinate with SANDAG team to conduct review sessions, obtain feedback on draft version, and incorporate them in final versions.
- Develop System Requirements document. Consultant shall review existing BOS requirements, conduct workshops with SANDAG teams to discuss the proposed requirements, address feedback, and prepare final requirements.

On **September 27, 2023**, the Director of Regional Transportation Services directed the team to “hold-off” on releasing the Regional BOS solicitation. No explanation was provided to the team as to why the solicitation was halted.

#### Path 4: FAGAN

After Fagan recommends SANDAG expedite the procurement of a new BOS in July 2022, they remain involved in various aspects of SANDAG's procurement process.

#### 2022-2023 Timeline:

**September 30, 2022:** Fagan briefed the new Director of Regional Transportation Services on next steps including "simultaneously begin procurement of a new back office."

**November 8, 2022:** Ron Fagan advised the Director of Regional Transportation Services on an alternate approach to use an RFQ to shorten the procurement process.

**May 4, 2023:** Ron Fagan sends the Director of Regional Transportation Services via email "Draft Proposals for Two Tasks" at the request of SANDAG. Fagan prepared the scope and price for two separate tasks: Task 1: Transition to a Next-Generation Back Office System (\$46,368) and Task 2: Review Revenue Workflow Documentation (\$40,572). The draft proposal for Task 1 states:

"In our original recommendations, we suggested SANDAG continue operating with the ETAN back office while expediting the procurement of a new back office system. This task is to draft a transition plan to detail how that should happen."

**June 8, 2023:** A contract amendment is executed for Fagan to prepare a BOS transition plan and process review. The transition plan due date is September 2023, and the process review work has deliverables from November 2023 through June 2024. The proposed budget for these 2 tasks is \$114,678.

**June 29, 2023:** Fagan holds a kickoff meeting with the Director of Regional Transportation Services for Tasks 1 and 2 above. Meeting notes include "Timeline: RFP out by beginning of 2024 – new vendor by April 2024"

**October 2, 2023:** SANDAG receives Fagan's Transition Plan. When the Director of Regional Transportation Services forwards the plan to the former CFO, he responds "Good report—basically states everything correctly, including the fact that the road ahead is going to be real tough.....Let's go, I am ready for the challenge!"

The transition plan includes the following:

#### TRANSITION TIMELINE

Based on experience with similar projects at many other agencies, Fagan envisions a transition timeline of approximately two (2) years:

1. Six (6) months to produce a new BOS RFP and select a vendor.

2. Eighteen months from Notice to Proceed (NTP) to Project Acceptance for the new BOS.

Ron Fagan of Fagan Consulting (Fagan) was interviewed during the investigation, and he confirmed SANDAG never acted on Fagan's recommendation to expedite an RFP/RFQ to procure a new back-office system to replace ETAN's BOS. The timeline above demonstrates SANDAG kept FAGAN engaged for months in the prospect of analyzing and assisting with a new procurement. When compared to the timeline entries related to Deloitte and A-to-Be earlier in the report, these efforts are occurring simultaneously, yet appear to be working towards different ends, a formal solicitation versus a sole source procurement. In addition, the Regional BOS solicitation that SANDAG staff was preparing from **February through September 2023**, appeared to include some of the same work SANDAG issued in the contract amendment to Fagan on **June 8, 2023**.

## Overall Conclusion

The investigation substantiates the Executive Team members, including the former CEO, had knowledge of the significance of ETAN's performance issues in June 2022. SANDAG's actions after receipt of the June 23, 2022 briefing from Fagan, and the BOS Risk Assessment report on July 8, 2022, confirm SANDAG considered the matter operationally significant enough to embark upon four different paths to address the implications on SANDAG's current BOS and OME's future BOS needs.

Executive Team member's explanations regarding some of SANDAG's actions are inconsistent with the investigation's evidence, however, their explanations and SANDAG's actions confirm an organizational culture driven from the top that lacked the requisite accountability and transparency expected for an agency entrusted with public funds and the public's trust.

The Board of Directors were not made aware of ETAN's inability to contractually perform and the need to solicit a new vendor until October 13, 2023. Therefore, activities related to procuring a new vendor and issuing related solicitations were occurring from the end of 2022 and throughout 2023 without the Board's knowledge. These multiple paths to address a known operational crisis wasted valuable public resources, squandered critical time to issue a proper public procurement, and undermines the trust of the Board and the public.

## Next Steps

The report will be presented to SANDAG's Audit Committee on October 11, 2024, and the Board of Directors on October 25, 2024, for discussion and possible action.

This investigation does not have any recommendations and serves to provide a record of past events as requested by the Board of Directors and Audit Committee.

## Methodology

The OIPA conducted an investigation to arrive at the findings and conclusions in this report. The following work was completed:

- Attending and/or reviewing SANDAG board meetings
- Reviewing SANDAG legislative records
- Reviewing current and former SANDAG staff members emails
- Interviewing Fagan representatives
- Interviewing current and former SANDAG staff members
- Reviewing reports and presentations by vendors/contractor

**SANDAG**

**OIPA**

**Office of the Independent  
Performance Auditor**

## INVESTIGATION

DATE: October 7, 2024

TO: Chair Nora Vargas, Board of Directors  
Chair David Zito, Audit Committee  
SANDAG Board of Directors  
SANDAG Audit Committee  
Mario Orso, Chief Executive Officer  
Dawn Vettese, Chief Financial Officer  
Amberlynn Deaton, Deputy General Counsel  
Residents of San Diego County and Toll Users

FROM: Courtney Ruby, Independent Performance Auditor

SUBJECT: Office of the Independent Performance Auditor's Whistleblower  
Investigation Report on SANDAG's New Tolling Back-Office  
System Implementation

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### Introduction

In December 2023, the Independent Performance Auditor, Audit Committee, Board Chair, and several Board members determined that the publicly disclosed allegations of SR 125 Toll customer mischarges and accounting issues warranted an independent investigation. The Office of the Independent Performance Auditor (OIPA) began its investigation to determine if SANDAG's SR 125 financial accounting can be relied upon and what steps SANDAG took to rectify the known errors with customer accounts that were publicly disclosed in November 2023.

The OIPA published the results of their [investigation in March 2024](#), revealing significant matters beyond customer mischarges and accounting issues; among them, ETAN's implementation of the Back-Office System (BOS) Fastlane was headed for trouble from the beginning, and SANDAG executive management failed to address the situation in a timely manner, including informing the Board of Directors.

On January 12, 2024, SANDAG's Board of Directors (BOD) authorized a \$28 million sole source contract to Deloitte Consulting (Deloitte) and A-to-Be USA (A-to-Be) for a Regional Back Office System Replacement. This contract was awarded due to the

performance issues related to ETAN's implementation of a BOS for SANDAG's SR 125 Toll Road and I-15 Express Lanes.

On May 29, 2024, the Office of the Independent Auditor's Whistleblower Hotline received a complaint alleging that the replacement BOS being implemented by Deloitte and A-to-Be for tolling operations "is unsuitable for fulfilling the financial reporting needs required by SANDAG to capture and complete reliable financial reporting required by GAAP." Further, "the need to produce reliable and accurate financial reports was not considered when A-to-Be was selected and awarded a sole source contract."

## Background

In February 2022, former Chief Executive Officer (CEO), Hasan Ikhrata, delegated oversight of SR 125 Operations to the former Chief Financial Officer (CFO), Andre Douzdjian, while the Project Management Office Reorganization for Toll Operations was assigned to former Deputy Chief Executive Officer (CEO), Ray Major. In August 2022, a new Director of Regional Transportation Services was hired. The CFO, Deputy CEO and Director of Regional Transportation Services were tasked with procuring a new back-office tolling system to replace ETAN.

The former CFO played a key role in the procurement process until mid-October 2023, at which point the former Deputy CEO appeared to take over leadership. This included contracting Deloitte in November 2023 to assess ETAN's BOS data for data migration to a replacement system and presenting management's recommendation to the Board of Directors to award a sole source contract to Deloitte inclusive of A-to-Be's MoveBeyond BOS Software Solution in January 2024.

On October 2, 2023, prior to Deloitte and A-to-Be being selected to provide a new tolling BOS, Fagan Consulting (Fagan) provided SANDAG a report titled, "SANDAG Transition Plan." Both the former CFO and the Director of Regional Transportation Services received the report. The report included a section on the procurement of a new system that stated the following:

*"SANDAG has started the process of acquiring a new BOS. Fagan has several recommendations that would help SANDAG in procuring the new BOS."*

The report then lists six bullet points for SANDAG to consider. For this investigation, we would like to highlight three of Fagan's recommendations (*the OIPA added bold emphasis*):

- The BOS RFP should be written to emphasize *detailed, in-depth demonstrations* showing actual system capabilities as opposed to brief

written descriptions of how the system works (i.e., make the procurement process require the bidders to “show me” as opposed to “tell me”).

- Address the defects previously noted in the Requirements during Fagan’s Operational Assessment and *rework the* overly cumbersome *Business Requirements Document* (BRD) as SANDAG has a better understanding of what requirements and functionality are needed.
- Ensure that the *new operational and technical requirements* provide the ability to conduct end-to-end system audits via screens, queries, searches, and *reports on both individual and bulk transactions and revenue*.

On January 12, 2024, the SANDAG Board of Directors, per the recommendation from SANDAG management, authorized a sole source contract with Deloitte to provide system integration, implementation, and infrastructure services for the SANDAG Commercial Back Office Migration and Rapid Deployment Project. Deloitte is also responsible for managing the payment process to the A-to-Be vendor, who provides the MoveBeyond tolling back-office platform (MoveBeyond). This contract was awarded due to the performance issues related to ETAN’s implementation of a back-office system for SANDAG’s SR 125 Toll Road and I-15 Express Lanes.

## Objectives

The objectives of the investigation were to determine if:

1. SANDAG’s Financial reporting needs were taken into consideration during the selection of Deloitte and A-to-Be as vendors for the new BOS to replace ETAN’s BOS.
2. A-to-Be’s Move Beyond back-office system can provide the requisite financial reporting.

## Findings

The investigation found:

1. The Finance Department’s financial reporting **needs were not considered** during the procurement process.
2. **System requirements were not developed** for the replacement BOS implementation and therefore are absent in the contract with Deloitte.



3. The A-to-Be MoveBeyond **software does not include an internal financial accounting system**, or a similar internal general ledger, like ETAN's BOS.
4. SANDAG discovered a **critical component** needed to facilitate the integration of the new BOS with SANDAG's ERP system **was missing**.

**FINDING 1: The Finance Department's financial reporting needs were not considered during the procurement process.**

SANDAG's consideration of various vendors to provide a new tolling BOS was limited to approximately five vendors. The documentation on these vendor presentations and communications with SANDAG is limited. Additionally, there is no documentation evaluating and comparing the vendors ability to satisfy SANDAG's financial reporting needs. Deloitte and A-to-Be had the most meetings, delivered the most presentations, and corresponded the most with the Director of Regional Transportation Services as referenced in the other OIPA investigation released on October 7, 2024. There is no written analysis as to why Deloitte and A-to-Be were selected for a \$28.7 million contract over the other vendors interviewed, except for a sole source justification prepared by the Director or Regional Transportation Services dated January 30, 2024.

On July 19, 2024, in a response to the OIPA's inquiry related to the implementation of the new tolling BOS, management stated, "staff were unable to find any information or documentation related to how Finance's needs were considered in the selection of the Deloitte/A to Be system."

When the former CFO was interviewed in June 2024 and asked if the Finance Department had any role in determining that Deloitte and A-to-Be was the right software solution, he stated:

"no, accounting<sup>1</sup> wasn't involved. I can say that obviously... I was involved in the decision making to go with Deloitte. Deloitte is one of the Big four accounting firms and...A to B is the backbone, the software that's gonna do the operations..."

He then affirmed that the Finance Department was not provided any demos of the system providing the financial reporting information they want. Other Finance Department team members confirmed they have not seen any demos as well.

The Chief Financial Officer is the highest executive financial leadership position in SANDAG. The former CFO's responsibilities included oversight of SR 125, and the procurement of a new BOS to replace ETAN's BOS. The former CFO's statements are

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<sup>1</sup> Accounting and Finance are used interchangeably by SANDAG, they both refer to the Finance Department.

evidence of SANDAG’s lack of executive accountability as discussed in [previous OIPA investigations](#). One of the primary reasons SANDAG needed to procure a new BOS was that ETAN’s BOS financial reporting could not be relied upon.

**FINDING 2: System requirements were not developed for the replacement BOS implementation and therefore are absent in the contract with Deloitte.**

System requirements detail what is required by an agency for their business needs to be met by a software system implementation. A typical system implementation would involve a pre-project phase where system requirements would be defined, followed by planning, design, implementation, validation and deployment. The pre-project phase includes all stakeholders identifying their needs to ensure system requirements are developed to meet such needs and then vetting these requirements to confirm they meet the defined needs of the stakeholders.

SANDAG did not create system requirements for this procurement. Instead, SANDAG defined the outcomes (outcome matrix) it wanted the system to produce. It is unclear why SANDAG believed an “outcome matrix” was a viable option. SANDAG’s outcome matrix for “Financial Reports” included in the contract with Deloitte states:

*“Agency [SANDAG] will provide current reports needed for alignment with current COTS [Commercial Off-the-Shelf] reports available in system.”*

Thus, the outcome is not defined, instead it is an **action item for SANDAG to produce in the coming months**, highlighting that critical corners were cut to expedite the contract. In addition, this is contrary to Fagan’s recommendations:

- Address the defects previously noted in the Requirements during Fagan’s Operational Assessment and ***rework the*** overly cumbersome ***Business Requirements Document*** (BRD) as SANDAG has a better understanding of what requirements and functionality are needed.
- Ensure that the ***new operational and technical requirements*** provide the ability to conduct end-to-end system audits via screens, queries, searches, and ***reports on both individual and bulk transactions and revenue***.

Regardless of whether it is an off-the-shelf software procurement or software is being developed, system requirements are the norm, not the exception.

The Fagan tolling implementation expert stated they had never seen a project with an outcomes matrix and a typical project would include system requirements and take three to four years to implement.

SANDAG's prior 2016 back-office system Request for Proposals (RFP) took over three years to prepare, involved outside consultants and included over 2,000 system requirements.

Deloitte and A-to-Be proposed a seven-month implementation schedule to user acceptance testing, production install and "go-live". An off-the-shelf software solution can be capable of shorter implementation times, however, there are many factors this would be dependent upon, and given system requirements were not produced, SANDAG, at a minimum, would not have been able to conclude that a seven-month implementation schedule was achievable. It is also unclear why Deloitte and A-to-Be, with their industry and system implementation expertise, would have offered such a short implementation schedule without a thorough vetting of system requirements.

Both SANDAG and their external contractors appear to have not engaged in an adequate process of due diligence for a complex system implementation with so many known and unknown variables.

**FINDING 3: The A-to-Be MoveBeyond software does not include an internal financial accounting system, or a similar internal general ledger, like ETAN's BOS.**

For months, SANDAG has struggled internally with moving the BOS implementation project forward. One cause for delay has been a significant misunderstanding on what the procured BOS can and cannot do.

The development of system requirements, as stated earlier, includes all stakeholders identifying their needs to ensure system requirements are developed to meet such needs, and then vetting the requirements to ensure they address the needs. If system requirements had been developed, the Finance Department would have been required to weigh in on what their needs were, and the process would have confirmed if the system was able to meet those needs.

On July 19, 2024, in a response to the OIPA's inquiry related to the implementation of the new tolling BOS, management stated, "The MoveBeyond system is a tolling commercial back-office system and not designed to be an accounting system."

According to the Director of Regional Transportation Services, the A-to-Be back-office software did not contain a financial accounting solution. They stated:

"A to B doesn't have a financial package. They connect to whatever your financial package is, or we could have told them to go get one. But we said no,

you're just gonna, you have to use the ERP (Enterprise Resource Planning System<sup>2</sup>).”

The Director of Regional Transportation Services also stated that SANDAG’s former Deputy CEO and former CIO stated that the SANDAG ERP system would be able to handle the financial transactions for the new tolling back-office system.

And as reported above, the former CFO stated:

- the Finance Department was not involved in picking the financial solution, and
- the Finance Department was not given demos of the system providing financial information.

These comments demonstrate the confusion among SANDAG Senior staff members regarding the new systems capabilities, and its reliance on SANDAG’s ERP system.

The Finance Department team working on the implementation believed the new BOS system would be like the current ETAN BOS system and include a general ledger accounting system embedded in the tolling BOS. This is not the case. The new BOS does not include an internal general ledger system.

Discussion and disagreements regarding the systems capabilities have gone on for months and involved all levels of SANDAG staff in addition to multiple consultants. SANDAG’s Finance Department is currently working with Deloitte and A-to-Be to define reports, a chart of accounts, and posting rules. Financial reporting capabilities integrated between the new BOS and SANDAG’s ERP are planned to occur during “phase 2” of the Deloitte system implementation. In phase 1, (the initially seven month phase) the process will be performed manually by the Finance Department staff in what has been described as a more laborious and manual process than what they are currently doing to produce financial statement from ETAN’s BOS.

Last, it is important to note the same Finance Department staff, who are responsible for performing workarounds on ETAN’s BOS to produce current financial reports while meeting annual audit deadlines, are also responsible for working with Deloitte and A-to-Be on the new system implementation. They are also involved in implementing a new organization-wide ERP system that has proven to be challenging as well. This example highlights SANDAG’s ineffective internal project management and resource planning that is contributing to employee burnout and low morale.

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<sup>2</sup> An Enterprise Resource Planning system is software that brings together and handles different business processes in a company. It integrates different business processes, such as finance, HR, supply chain, and customer management, into one central database and user interface for easier management.

**FINDING 4:** In April 2024, SANDAG discovered that a critical component was missing to facilitate the integration of the new BOS with SANDAG's ERP system.

The BOS financial data must interface with SANDAG's new ERP to prepare SANDAG's financial statements. The standard industry document defining how a system interfaces with another system is an Interface Control Document (ICD). An ICD describes all data inputs going into, and data outputs coming out of a system. An ICD from SANDAG's ERP system would explain to programmers how to send financial information from A-to-Be's MoveBeyond software to the ERP system.

The contract with Deloitte states that the interface between the BOS and third-party financial system (SANDAG's ERP):

"Must adhere to ICD provided by Agency [SANDAG]."

In April 2024, SANDAG informed Deloitte there was no ICD for SANDAG's ERP system. Deloitte sent a response to SANDAG (April 8, 2024) stating: :

"SANDAG has informed us that there is no pre-existing ICD for the ERP system. Rather, SANDAG will be creating a new Interface Control Document (ICD) that once created, will be provided to the Deloitte Team. As this will be SANDAG's first time integrating a third-party system into the ERP, there's no established protocol for this connection. Advancing this activity increases risk due to the novelty of the ICD and the inexperience with 3rd party systems automatically creating entries into the SANDAG ERP system. Given that SANDAG plans to create an untested ICD for this purpose, we need to extend the project schedule to make room for risk mitigation testing and revisions to this ICD on both the MoveBeyond and the Tyler ERP systems. In addition, further delays may be encountered if the produced ICD introduces delays to development and/or testing, beyond this assumption, requiring an additional change request."

It is likely this issue would have surfaced earlier had SANDAG developed system requirements and confirmed whether SANDAG's ERP had an ICD.

## Conclusion

SANDAG embarked on an expedited and uncoordinated process to replace ETAN's back-office system. Best procurement and project management practices were not utilized, and lessons learned from the prior ETAN BOS implementation were ignored. The goal was to "fix-it" quickly without laying the groundwork for success as recommended by Fagan. Creating system requirements with subject matter experts and stakeholders would have flushed out risks and failure points in the project. While A-to-Be is an off-the-shelf commercial tolling system, a significant piece SANDAG failed to consider was the amount of planning which needed to occur on the front end to successfully implement A-to-Be's MoveBeyond BOS, even though SANDAG's vendor (Fagan) had warned significant pre-planning was needed.

## Recommendations

The OIPA recommends management, at a minimum, implement the following:

1. Clearly defined senior management roles, responsibilities and expectations. Special project assignments, such as a management oversight for a system implementation, must also have clearly defined roles, responsibilities and expectations. The CEO should hold senior managers accountable to such.
2. Require key senior leadership positions have the requisite project management skills to effectively manage large-scale internal projects. The process should align with best practices, include proper certifications, and result in a thorough analysis of internal and external capacity including technical expertise, documented risk assessments, and demonstrated alignment with SANDAG's core responsibilities.
3. Revise sole source policies and procedures for IT to preclude sole source awards except for demonstrated proprietary, compatibility or unique functionality issues only. An IT system implementation would not qualify.
4. Require system requirements be developed for IT system solutions and all stakeholders are formally included in the process. Project planning must include the requisite time to accomplish this.
5. Multi-million-dollar contract awards must include sufficient pre-award analysis to demonstrate a vendor has been formally evaluated against SANDAG's project requirements. SANDAG's project requirements must be fully defined before award is determined.

6. Formal post-evaluations of all multimillion-dollar projects should be conducted, lessons learned documented and corrective action plans for future projects prepared and presented to the CEO.

## Next Steps

The report will be presented to SANDAG's Audit Committee on October 11, 2024, and the Board of Directors on October 25, 2024, for discussion and possible action.

SANDAG Management should provide the OIPA, the Audit Committee and the Board of Directors an initial written response to the report's recommendations within two weeks.

The Office of the Independent Performance Auditor will publicly report on the status of the recommendations bi-annually to the Audit Committee, and the Board of Directors.

## Methodology

The OIPA conducted an investigation to arrive at the findings and conclusions in this report. The following work was completed:

- Reviewing Whistleblower complaint
- Requesting information from management
- Attending and/or reviewing SANDAG board meetings
- Reviewing SANDAG meeting notes and materials received from prospective vendors
- Reviewing SANDAG legislative records
- Reviewing current and former SANDAG staff members emails
- Reviewing SANDAG contracting records
- Interviewing Fagan representatives
- Interviewing current and former SANDAG staff members
- Reviewing Fagan reports



## **OIPA's SR125 Companion Investigation: When ETAN's Significant Performance Issues Were Known, by Whom, and What Actions Occurred**

### **Whistleblower Investigation: SANDAG's New Tolling Back-Office System Implementation**

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**Courtney Ruby, CPA, CFE**  
Independent Performance Auditor

**Lloyd Carter**  
Deputy Independent Performance Auditor

**Doug D'Pete, CFE**  
Principal Independent Performance Auditor  
Whistleblower Hotline Manager

## **Background**

### **December 2023**

SANDAG's Independent Performance Auditor, Audit Committee, Board Chair, and several Board members determined the publicly disclosed allegations regarding the SR 125 toll operations warranted an independent investigation.

### **March 2024**

The Office of the Independent Performance Auditor (OIPA) conducted the investigation and published their findings.

## Background

The investigation revealed ETAN's **financial reporting could not be relied upon** and other significant matters; among them, ETAN's implementation of the Back-Office System (BOS) Fastlane was **headed for trouble from the beginning**, and **SANDAG executive management failed to address the situation in a timely manner**, including informing the Board of Directors.

Independence ♦ Transparency ♦ Accountability

SANDAG  
OIPA Office of the Independent  
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## Introduction

Soon after OIPA released the March 2024 investigation, SANDAG's Audit Committee and Board of Directors requested **OIPA conduct a follow-up investigation** to provide additional details of SANDAG's Executive Team's knowledge of the significant operational issues affecting ETAN's BOS.

Additionally, a **whistleblower complaint filed in May 2024** prompted another investigation. The whistleblower alleged the new vendor's (Deloitte and A-to-Be) BOS does not meet the financial reporting needs of SANDAG nor were those needs considered when Deloitte and A-to-Be were selected to replace ETAN's BOS.

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## OIPA's SR125 Companion Investigation:

### When ETAN's Significant Performance Issues Were Known, by Whom, and What Actions Occurred

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## Objectives

### **Determine:**

1. Who on the Executive Team and Board of Directors knew of the significant performance struggles ETAN was experiencing as referenced in the SR125 investigation conducted by OIPA and released in March 2024,
2. When they became aware of ETAN's significant performance issues,
3. What they knew, and
4. What actions were taken by SANDAG, if any, to address the issues.

## Investigation Findings

1. OIPA did not find that any members of the Board of Directors were notified prior to late 2023 of ETAN's significant performance issues.
2. All members of the Executive Team were aware of ETAN's Back-Office System performance issues.
3. The Executive Team had knowledge of the significance of ETAN's performance issues in June 2022.

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## Investigation Findings

4. Due to poor management, the critical time needed to issue a Back-Office System (BOS) Request for Proposals (RFP) to replace ETAN was lost, and instead SANDAG embarked on four different paths, some simultaneously, to address the operational crisis caused by ETAN's inability to meet critical contractual requirements. These paths demonstrated a wasteful use of public resources and a lack of transparency, accountability and internal coordination. The result was a hastily executed sole source contract award to Deloitte.

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## Finding One

### FINDING 1

OIPA did not find that any members of the Board of Directors were notified **prior to late 2023** of ETAN's significant performance issues.

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## Finding Two

### FINDING 2

**All members** of the Executive Team were aware of ETAN's Back-Office System performance issues.

However, the degree to which each Executive Team member understood the significance of the performance issues **appears to differ based upon their role, experience and proximity to SR 125 operations**, and **overall direction by the former CEO** related to operational matters.

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## Finding Two

- An executive staff member stated, “Hasan believed ETAN’s problems were “in his authority.”” This is evident on December 8, 2023, when Hasan Ikhata’s responded to the Board of Directors’ question as to why they were not informed sooner. He said:

“You hire your staff to do their job and we were doing our jobs and we knew there were issues...Yeah, we knew there were some operational issues, but we thought the best approach is to overcome the mantle to get to the point where we couldn't get the financial statement, that's when we came to you in October. But yes, I made those decisions based on the authorities you offer me to make. And I don't think you want every time we have an operate small operational issue.”

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## Finding Two

- At the April 26, 2024 Board Meeting, Interim CEO Coleen Clementson stated:

“I think there’s a culture at SANDAG to make things work no matter how hard it is. You just keep believing “we’re going make this work, we’re going to make this work, we’re going to make this work.” And it was no secret that the ETAN system was not working. There were bugs that were constantly being worked through.”

**and**

“Who knew about it? How were the discussions and then who made the decision. Ultimately, that was the CEO that made the decision. The CEO had a meeting with the CEO of ETAN, and they made an agreement that they were going to continue to work on this.”

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## Finding Three

### FINDING 3

The Executive Team had knowledge of the significance of ETAN's performance issues in June 2022.

Fagan's July 2022 BOS Risk Assessment Report concluded SANDAG should continue the current contract with ETAN while procuring a new back-office system. Continuing with ETAN was considered a necessary interim step until SANDAG could acquire and stand up a new back-office system.

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## Finding Three



2022 Timeline

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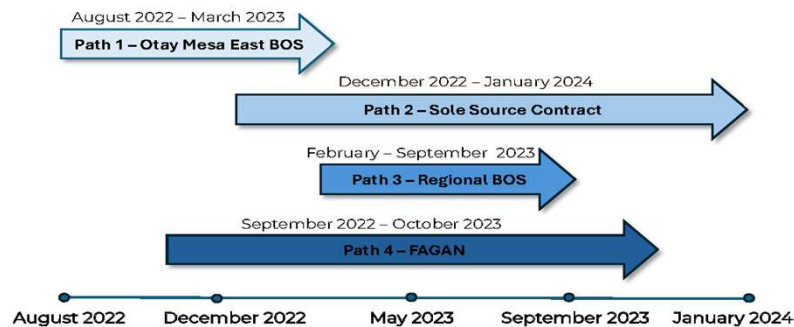
## Finding Four

### FINDING 4

Due to **poor management**, the critical time needed to issue a Back-Office System (BOS) Request for Proposals (RFP) to replace ETAN was lost, and instead **SANDAG embarked on four different paths**, some simultaneously, to address the operational crisis caused by ETAN's inability to meet critical contractual requirements.

## The Four Paths

SANDAG embarked upon four different paths to address the impacts of ETAN's performance issues upon SR 125, I-15 and Otay Mesa East Port of Entry's (OME) imminent BOS needs:





# The Four Paths

## Path 1: OME's BOS (August 2022 to March 2023)

- Use ETAN's BOS (Not an option—Fagan's BOS risk assessment).
- Have a CTOC agency process OME's tolling transactions (Not an option—decided January 2023).
- Procure a separate BOS for OME (Proceed with BOS via RFQ by March 2023).

## Path 2: Activities leading up to Sole Source Contract Award to Deloitte (December 2022 to January 2024)

- **December 2022 to May 2023:** Discussions/meetings with 5 potential vendors: P-Square Solutions, BRIC, Emovis, Neology and Deloitte and A-to-Be.
- **September 2023 to October 2023:** SANDAG working exclusively with Deloitte and A-to-Be.
- **October 3, 2023:** Deloitte presents "SANDAG Deloitte Tolling Solution Executive Proposal" to Executive Team and RTS and IT Directors.
- **October 13, 2023:** BOD informed in a closed session of ETAN's significant performance issues including inability to produce financial reports.
- **November 6, 2023:** Deloitte awarded \$459,000 sole source contract to evaluate ETAN's BOS data for migration to a new BOS.
- **January 12, 2024:** SANDAG Board of Directors authorize a \$28 million sole source contract to Deloitte and A-to-Be for Regional Back Office System Replacement.

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# The Four Paths

## Path 3: Regional BOS (February 2023 to September 2023)

### February 2023 through September 2023

SANDAG staff work on Regional BOS support services solicitation. The scope includes:

- Support the SANDAG Project Manager (PM) in the overall planning, development, and project management activities during the implementation of a new Regional Back Office System (BOS).
- Support the SANDAG PM in the development of strategic planning documents for the new Regional BOS and providing support during the solicitation process.
- Develop scope of work for the Regional BOS RFP solicitation package including:
  - system requirements document.

### July 12, 2023

- Contracts and Procurement Office held a Mobility Technology ITS on-call kick-off meeting in preparation for three mini-competition solicitations including the Regional BOS support services solicitation.

### September 27, 2023

- Director of Regional Transportation Services directed team to "hold-off" on releasing Regional BOS solicitation.

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## The Four Paths

### Path 4: Fagan (September 2022 to October 2023)

- **September 30, 2022:** Fagan briefed the new Director of Regional Transportation Services on next steps including “simultaneously begin procurement of a new back office.”
- **November 8, 2022:** Fagan advised the Director of Regional Transportation Services on an alternate approach to use an RFQ to shorten the procurement process.
- **May 4, 2023:** Fagan sends the Director of Regional Transportation Services via email “Draft Proposals for Two Tasks” ...Task 1: Transition to a Next-Generation Back Office System.
- **June 8, 2023:** A contract amendment is executed for Fagan to prepare a BOS transition plan.
- **October 2, 2023:** The transition plan that Fagan emails includes:
  - A transition timeline of approximately two (2) years:
    - Six (6) months to produce a new BOS RFP and select a vendor.
    - Eighteen months from Notice to Proceed (NTP) to Project Acceptance for the new BOS.

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## Conclusion

- Executive Team knew in June 2022.
- The Board of Directors were not made aware of ETAN’s inability to contractually perform and of the need to solicit a new vendor until October 13, 2023.

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## Conclusion

- Activities related to procuring a new vendor/issuing related solicitations were occurring from the end of 2022 and throughout 2023 without the Board's knowledge.
- These **multiple paths squandered critical time** to issue a public procurement and **undermined** the **trust** of the Board and the public.

The result: a **hastily executed sole source contract** awarded to Deloitte.

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## Whistleblower Investigation: SANDAG's New Tolling Back-Office System Implementation

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## Background

On January 12, 2024, SANDAG's Board of Directors (BOD) authorized a \$28 million sole source contract to Deloitte Consulting (Deloitte) and A-to-Be USA (A-to-Be) for a Regional Back Office System Replacement. This contract was awarded due to the performance issues related to ETAN's implementation of a BOS for SANDAG's SR 125 Toll Road and I-15 Express Lanes.

## Background

On October 2, 2023, prior to Deloitte and A-to-Be being selected to provide a new tolling BOS, Fagan Consulting (Fagan) provided SANDAG a report titled, "SANDAG Transition Plan." Both the former CFO and the Director of Regional Transportation Services received the report. The report included a section on the procurement of a new system that stated the following:

- The BOS RFP should be written to emphasize **detailed, in-depth demonstrations** showing actual system capabilities as opposed to brief written descriptions of how the system works (i.e., make the procurement process require the bidders to "show me" as opposed to "tell me").
- Address the defects previously noted in the Requirements during Fagan's Operational Assessment and **rework** the overly cumbersome **Business Requirements Document (BRD)** as SANDAG has a better understanding of what requirements and functionality are needed.
- Ensure that the **new operational and technical requirements** provide the ability to conduct end-to-end system audits via screens, queries, searches, and **reports on both individual and bulk transactions and revenue.**

## Objectives

### Determine if:

1. SANDAG's Financial reporting needs were taken into consideration during the selection of Deloitte and A-to-Be as vendors for the new BOS to replace ETAN's BOS.
2. A-to-Be's MoveBeyond back-office system can provide the requisite financial reporting.

## Investigation Findings

1. The Finance Department's financial reporting needs were not considered during the procurement process.
2. System requirements were not developed for the replacement BOS implementation and therefore are absent in the contract with Deloitte.
3. The A-to-Be MoveBeyond software does not include an internal financial accounting system, or a similar internal general ledger, like ETAN's BOS.
4. SANDAG, in April 2024, discovered a critical component needed to facilitate the integration of the new BOS with SANDAG's new ERP system was missing.

## Finding One

### FINDING 1

The Finance Department's financial reporting needs were not considered during the procurement process.

- Staff were unable to find any information or documentation related to how Finance's needs were considered in the selection of the Deloitte/A to Be system.
- SANDAG's consideration of various vendors to provide a new tolling BOS was limited to approximately five vendors (documentation is limited).
- There is no written analysis as to why Deloitte and A-to-Be were selected for a \$28.7 million contract over the other vendors interviewed. There is only a one-page sole source justification document.

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## Finding One

**One of the primary reasons SANDAG needed to procure a new BOS was that ETAN's BOS financial reporting could not be relied upon.**

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## Finding Two

### FINDING 2

System requirements were not developed for the replacement BOS implementation and therefore are absent in the contract with Deloitte.

## Finding Two

- SANDAG defined the outcomes it wanted the system to produce, instead of requirements.
- It is unclear why SANDAG believed “defining outcomes” was a viable option.
- The “outcomes” in Deloitte’s contract state that SANDAG will provide the reports needed for alignment with the off-the-shelf system.

*Thus, the outcome is not defined, instead it is an action item for SANDAG.*

## Finding Two

This is contrary to Fagan's recommendations:

- Address the defects previously noted in the Requirements during Fagan's Operational Assessment and **rework** the overly cumbersome **Business Requirements Document** (BRD) as SANDAG has a better understanding of what requirements and functionality are needed.
- Ensure that the **new operational and technical requirements** provide the ability to conduct end-to-end system audits via screens, queries, searches, and **reports on both individual and bulk transactions and revenue**.

*Regardless of whether it is an off-the-shelf software procurement or software is being developed, system requirements are the norm, not the exception.*

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## Finding Two

Fagan tolling implementation expert stated:

- They had never seen a project with an outcomes matrix.
- A typical project would include system requirements and take three to four years to implement.

SANDAG's prior 2016 back-office system Request for Proposals (RFP) took over three years to prepare, involved outside consultants, and included over 2,000 system requirements.

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## Finding Two

- Deloitte and A-to-Be proposed a seven-month implementation schedule to user acceptance testing, production install and “go-live”.
- SANDAG, at a minimum, would not have been able to conclude that a seven-month implementation schedule was achievable.
- It is unclear why Deloitte and A-to-Be, with their industry and system implementation expertise, would have offered such a short implementation schedule without a thorough vetting of system requirements.
- SANDAG and the external contractors’ due diligence appeared to be insufficient for a complex system implementation.

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## Finding Three

### FINDING 3

The A-to-Be MoveBeyond software does not include an internal financial accounting system, or a similar internal general ledger, like ETAN’s BOS.

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## Finding Three

- On July 19, 2024, in a response to the OIPA's inquiry related to the implementation of the new tolling BOS, management stated, "The MoveBeyond system is a tolling commercial back-office system and not designed to be an accounting system."
- According to the Director of Regional Transportation Services, the A-to-Be BOS did not contain a financial accounting solution. They stated:

"A to B doesn't have a financial package. They connect to whatever your financial package is, or we could have told them to go get one. But we said no, you're just gonna, you have to use the ERP."

## Finding Three

SANDAG's former CFO stated:

- The Finance Department was not involved in picking the financial solution, and
- The Finance Department was not given demos of the system.

## Finding Three

- The Finance Department working on the implementation believed the new BOS system would be like the current ETAN BOS system and include a general ledger accounting system embedded in the tolling BOS. This is not the case. The new BOS does not include an internal general ledger system.
- Discussion and disagreements regarding the systems capabilities have gone on for months and involved all levels of SANDAG staff in addition to multiple consultants.

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## Finding Three

- Financial reporting capabilities integrated between the new BOS and SANDAG's ERP are planned to occur during "phase 2" of the Deloitte system implementation. In phase 1, (the initial seven-month phase) the process will be performed manually by the Finance Department.
- The Finance Department staff is overtaxed with ETAN work arounds, annual audit requests and reports, new BOS implementation, and new org-wide ERP implementation that has also proved difficult.

*This is an example of ineffective internal project management and resource planning contributing to employee burnout and low morale.*

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## Finding Three

The Director of Regional Transportation Services informed OIPA that SANDAG's former Deputy CEO and former CIO stated the SANDAG ERP system would be able to handle the financial transactions for the new tolling back-office system.

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## Finding Four

### FINDING 4

In April 2024, SANDAG discovered that a critical component was missing to facilitate the integration of the new BOS with SANDAG's ERP system.

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## Finding Four

The BOS financial data must interface with SANDAG's new ERP to prepare SANDAG's financial statements.

- The standard industry document defining how a system interfaces with another system is an Interface Control Document (ICD).
- An ICD describes all data inputs going into, and data outputs coming out of a system.

*There is no pre-existing ICD for the ERP system.*

## Finding Four

The contract with Deloitte states that the interface between the BOS and third-party financial system (SANDAG's ERP):

"Must adhere to ICD provided by Agency [SANDAG]."

In April 2024, SANDAG informed Deloitte there was no ICD for SANDAG's ERP system. Deloitte sent a response to SANDAG (April 8, 2024) stating:

"SANDAG has informed us that there is no pre-existing ICD for the ERP system... Given that SANDAG plans to create an untested ICD for this purpose, we need to extend the project schedule to make room for risk mitigation testing and revisions to this ICD on both the MoveBeyond and the Tyler ERP systems."

## Conclusion

- SANDAG embarked on an expedited and uncoordinated process to replace ETAN's BOS.
- Best procurement and project management practices were not utilized.
- Lessons learned from the prior ETAN BOS implementation were ignored.

The goal was to "fix-it" quickly without laying the groundwork for success as recommended by Fagan.

Creating system requirements with SMEs and stakeholders would have flushed out risks and failure points in the project.

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## Conclusion

While A-to-Be is an off-the-shelf commercial tolling system, a **significant** piece SANDAG **failed to consider** was the **amount of planning** needed on the front end to successfully implement the new BOS, even though SANDAG's vendor (Fagan) **had warned significant pre-planning was needed.**

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## Recommendations

### **We recommend management, at a minimum, implement the following:**

1. Clearly defined senior management roles, responsibilities and expectations. Special project assignments, such as a management oversight for a system implementation, must also have clearly defined roles, responsibilities and expectations. The CEO should hold senior managers accountable to such.
2. Require key senior leadership positions have the requisite project management skills to effectively manage large-scale internal projects. The process should align with best practices, include proper certifications, and result in a thorough analysis of internal and external capacity including technical expertise, documented risk assessments, and demonstrated alignment with SANDAG's core responsibilities.
3. Revise sole source policies and procedures for IT to preclude sole source awards except for demonstrated proprietary, compatibility or unique functionality issues only. An IT system implementation would not qualify.

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## Recommendations

### **We recommend management, at a minimum, implement the following:**

4. Require system requirements be developed for IT system solutions and all stakeholders are formally included in the process. Project planning must include the requisite time to accomplish this.
5. Multi-million-dollar contract awards must include sufficient pre-award analysis to demonstrate a vendor has been formally evaluated against SANDAG's project requirements. SANDAG's project requirements must be fully defined before award is determined.
6. Formal post-evaluations of all multimillion-dollar projects should be conducted, lessons learned documented and corrective action plans for future projects prepared and presented to the CEO.

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## Next Steps

The **OIPA will publicly report on** the status of the recommendations to the Audit Committee and Board of Directors **semi-annually**.

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# Questions?

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October 17, 2024

TO: Chair Nora Vargas, Board of Directors  
Chair David Zito, Audit Committee  
SANDAG Board of Directors  
SANDAG Audit Committee  
Courtney Ruby, Independent Performance Auditor  
Residents of San Diego County and Toll Users

FROM: Mario Orso, SANDAG Chief Executive Officer

SUBJECT: Management Response to the Office of the Independent Performance Auditor's  
Whistleblower Investigation Report on SANDAG's New Tolling Back-Office System  
Implementation

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On behalf of the SANDAG Management Team, we appreciate the opportunity to respond to the Office of the Independent Performance Auditor's (OIPA's) report pertaining to the Whistleblower Investigation on SANDAG's New Tolling Back-Office System Implementation. The Investigation resulted in 4 findings and 6 recommendations. Management welcomes the findings from the investigation and agrees that many of the recommendations proposed by OIPA will be effective in strengthening agency processes and controls. SANDAG remains committed to providing a professional working environment for all its employees. Implementation of several improvements noted in this report are a high priority and as such will be completed in a timely manner. I look forward to continuing to work closely with OIPA to foster positive changes that will ultimately improve SANDAG's program and projects.

As noted by the investigation, OIPA recommended management implement the following:

1. Clearly defined senior management roles, responsibilities and expectations. Special project assignments, such as a management oversight for a system implementation, must also have clearly defined roles, responsibilities and expectations. The CEO should hold senior managers accountable to such.

Management Response:

As part of the agency re-organization currently underway, the CEO will redefine roles/responsibilities, and re-set performance expectations for executive-level staff. Going forward, and on an ongoing basis, the CEO will ensure executives have the skills, experience, and resources necessary for successful job performance (oversight of agency projects and programs), and will utilize additional measures to drive responsibility and accountability. Currently a focus has been given to delivery re-organization with a clear focus on special, mega projects and Intelligent Transportation Systems (ITS) projects. Moving forward the agency intends to develop a robust training program and tools necessary to support project implementation. Policies, procedures, and directives will be updated to clearly outline roles and responsibilities.

2. Require key senior leadership positions have the requisite project management skills to effectively manage large-scale internal projects. The process should align with best practices, include proper certifications, and result in a thorough analysis of internal and external capacity including technical expertise, documented risk assessments, and demonstrated alignment with SANDAG's core responsibilities.

Management Response:

Management established two new divisions, Program/Project Management and MEGA Projects. The new divisions will focus on project management best practices, procedures and guidelines, outlining roles, responsibilities, and expectations for senior management, provide analysis of internal and external capacity including technical expertise, document risk assessment, and demonstrate alignment with SANDAG's core responsibilities. Senior leadership positions shall have the requisite project management skills to effectively manage large-scale internal projects. The proposed changes are reflected in the current agency wide re-organization efforts.

3. Revise sole source policies and procedures for IT to preclude sole source awards except for demonstrated proprietary, compatibility or unique functionality issues only. An IT system implementation would not qualify.

Management Response:

SANDAG management and staff have been addressing sole source procedures across the agency, that are not limited to just IT/ITS. The current CEO reviews all sole source contracts with directors providing justification and determining whether a sole source contract should be approved, rejected, extended, or have the contract to be competed. SANDAG management will further discuss with OIPA the possible flexibility with IT and ITS projects.

4. Require system requirements be developed for IT system solutions and all stakeholders are formally included in the process. Project planning must include the requisite time to accomplish this.

Management Response:

SANDAG management will establish procedures for following the Systems Engineering (SE) process for all technology projects. The SE process is a well-established and formalized process followed by the intelligent transportation industry, California Department of Transportation (Caltrans), and the United States Department of Transportation. The SE process provides a formal structure for carrying out the delivery of technology projects starting with the development of a Concept of Operations plan that documents the needs of all users of the system, and formal System Requirements that describe in detail how the system will be designed to meet user needs. Depending on the scale and complexity of the IT and ITS system, the agency may conduct a competitive solicitation for a consultant to help carry out the project planning and development following the SE process.

5. Multi-million-dollar contract awards must include sufficient pre-award analysis to demonstrate a vendor has been formally evaluated against SANDAG's project requirements. SANDAG's project requirements must be fully defined before award is determined.

Management Response:

SANDAG does have procurement procedures in place that require the development of complete, adequate, and realistic specifications when procuring equipment, supplies, IT solutions, and construction. In this case, however, SANDAG opted to proceed with an outcome matrix defining the outcomes it wanted the system to produce. Management intends to develop standard operating procedures when planning multimillion-dollar systems procurements following the SE process to ensure project requirements are fully and clearly defined prior to a solicitation process. Additionally, a Program and Project Management team is being added to the agency structure to provide governance and guidance for major projects including systems implementations.

SANDAG also has procedures in place that define project-specific qualifications when bidding major construction projects. Bidders are required to demonstrate how they meet these qualifications and Contract Analysts conduct a pre-award analysis to determine if a contractor does indeed meet the project requirements advertised. These same requirements will be added to enhanced procedures for multimillion-dollar systems procurements.

6. Formal post-evaluations of all multimillion-dollar projects should be conducted, lessons learned documented and corrective action plans for future projects prepared and presented to the CEO.

Management Response:

Management shall create procedures and guidelines for post evaluations of multimillion-dollar projects. These post evaluations will be shared with all internal stakeholders and presented to the CEO upon completion of the project. In addition, the final report and documentation will be saved in the project files for future reference. Any lessons learned will be noted and incorporated into standard operating procedures and future procurements of a similar nature.

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# Fiscal Year 2024 External Audit Recommendation Compilation

Update as of August 30, 2024



Courtney Ruby, CPA, CFE  
*Independent Performance Auditor*

## Message from the Independent Performance Auditor

I am pleased to present a compilation of SANDAG's External Audit Recommendations as of August 30, 2024, prepared by the Office of the Independent Performance Auditor (OIPA).

As part of OIPA's authorized annual audit work plan, OIPA requests SANDAG Management provide annual updates on the corrective actions outlined in their response to each external audit. No additional testing or verification is performed by OIPA staff in relation to external audit recommendations.

At the close of each fiscal year, OIPA compiles and publishes a list of all audit recommendations awaiting implementation that were provided by external auditors in prior years, along with any additional recommendations from audits completed in that fiscal year.

The external audits included in this year's compilation include SANDAG's Fiscal Year 2023 Audited Annual Comprehensive Financial Report, overseen by the Audit Committee, and the TransNet audits overseen by the Independent Taxpayer Oversight Committee (ITOC) which include: the Triennial TransNet Performance Audits from Fiscal Years 2024, 2021, and 2018, and the Fiscal Year 2023 TransNet Extension Activities Audit.

This report is designed to be a straightforward tool for the Audit Committee, Board of Directors, Management and the public to easily reference the status of all outstanding external audit recommendations. It also serves to ensure that recommendations do not languish and that common organizational trends, if any, are identified and addressed from a broader management perspective.

OIPA would like to thank Management for their assistance in collecting and updating all the external audit recommendations included in this year's compilation.

Sincerely,



Courtney Ruby, CPA, CFE  
Independent Performance Auditor

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## Audits in this Compilation

### **FY 2023 Annual Audited Comprehensive Financial Report**

The Annual Comprehensive Financial Report presents the financial position and activity of SANDAG and its three component units, which include the San Diego County Regional Transportation Commission, SourcePoint, and the Automated Regional Justice Information System (ARJIS). The audit is conducted by an outside certified public accounting firm and examines SANDAG's internal controls over financial reporting.

### **TransNet Triennial Performance Audits (2024, 2021, 2018)**

TransNet is a half-cent sales tax approved by voters in 1987 to improve transportation infrastructure in the San Diego region. The TransNet Extension Ordinance and Expenditure Plan, approved by voters in 2004, established the Independent Taxpayer Oversight Committee (ITOC). As part of its duties under this ordinance, the ITOC oversees a triennial performance audit of SANDAG and other agencies' progress on TransNet-funded projects and programs for the preceding three-year period. These audits include examinations of major corridor project delivery and grants funded by TransNet, determinations of TransNet project alignment with the Regional Transportation Plan, and updates on the implementation of prior audit recommendations.

### **FY 2023 ITOC TransNet Extension Activities**

In addition to the TransNet Triennial Performance Audit, the ITOC also oversees a TransNet and TransNet Extension Activities Fiscal and Compliance Audit at the end of each fiscal year. This audit is designed to determine whether recipients of TransNet funds are in compliance with the TransNet Ordinance and TransNet Extension Ordinance for that fiscal year.

## Implementation Status Definitions

The Office of the Independent Auditor (OIPA) contacted SANDAG departments following the close of Fiscal Year 2024 to obtain updates on all outstanding external audit recommendations. Recommendations that were recorded as “Implemented” in OIPA’s Fiscal Year 2023 External Audit Report have been closed and are not included in this compilation. Each recommendation was categorized as follows:

**Pending** – The recommendation is not scheduled to be implemented yet per the responsible party’s initial response to the external auditors.

**Not started** – The responsible party temporarily postponed implementing the recommendation or did not demonstrate sufficient progress toward implementing the recommendation.

**Started** – The responsible party began implementing the recommendation, but considerable work remains.

**Partly Implemented** – The responsible party satisfied some elements of the recommendation, but additional work and testing remains.

**Implemented** – The responsible party implemented the recommendation.

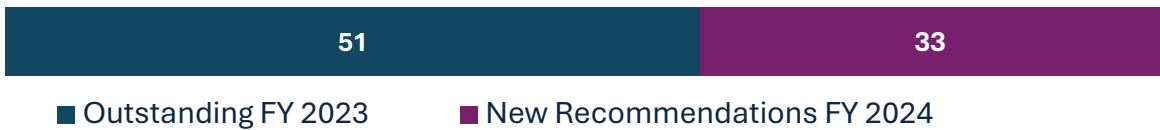
**Dropped** – The IPA eliminated the recommendation due to a change in circumstances rendering it no longer necessary, or recommendation was determined to be outside of audit scope.



## Summary of Recommendations

At the end of Fiscal Year 2023, there were **51 outstanding external audit recommendations** that carried over into 2024. These included 24 from the 2018 TransNet Triennial Performance Audit, and 27 from the 2021 TransNet Triennial Performance Audit.

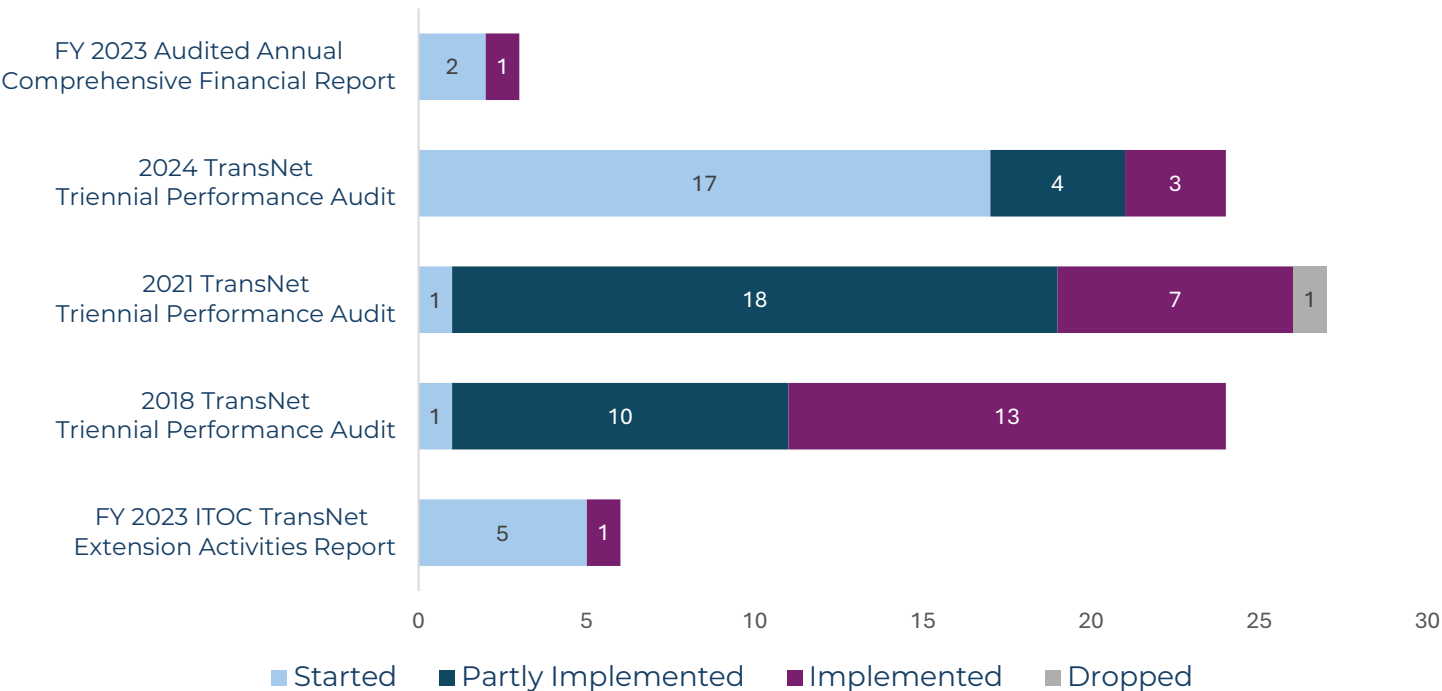
In Fiscal Year 2024, three (3) additional external audits were completed, adding a total of **33 new recommendations** for tracking.



Of these 84 recommendations, **25 were implemented** during Fiscal Year 2024 and **1 was dropped**, leaving **58 remaining** to be tracked into Fiscal Year 2025.



The following report further details each of these recommendations and the most recent implementation status, as provided by SANDAG Management.



## FY 2023 Audited Annual Comprehensive Financial Report

Publish Date: June 2024

Recommendation	Number	Status	Management Comments
Auditing standards indicate that material adjustments identified through the audit process are evidence of a weakness in SANDAG's internal control structure. Efforts should be made to enhance SANDAG's year-end closing procedures to include areas that resulted in audit adjustments.	1.1	Started	<p>The year-end process for FY 2024 is underway with a number of revisions to the process being made to improve review and accuracy of accounting entries. Three key accounting staff positions have been filled since the audit period last year. We have established a timeline for the year-end process that incorporates additional time for adequate review of accounting entries before they are provided to the auditors. To check for missing or incorrect accounting entries, a year-over-year variances analysis has been created and is being used earlier in the year-end process. Accounting staff also took a proactive approach of identifying complex financial entries early in the year-end process, so they could be discussed with Davis Farr before the accounting entries were finalized. These key personnel are leading the Finance Team in preparing for the annual audit deadlines. The team has developed timelines and a year-end task list that provides visibility to the process and the progress of each task.</p> <p>Coordination with the rest of the agency is another focus area. From June to early August 2024, communications went out to the entire agency describing the year-end process and deadlines. The ongoing communication to the entire agency of important invoice deadlines has helped to complete the entry and accrual of FY 2024 invoices in a timely manner.</p>
SANDAG should continue to evaluate the back-office system to verify the accuracy of toll transactions, billing to customer accounts, and related accounting transactions recorded in the SR 125 fund. SANDAG should develop additional controls to regularly monitor the transactions recorded by the back-office system for timely detection of errors.	2.1	Started	Documentation provided on ETAN fixes implemented as a result of the customer account review.
We recommend SANDAG enhance the system of internal controls for identification of federal awards subject to the single audit requirements and the preparation and review of the SEFA for accuracy and completeness.	3.1	Implemented	Schedule of Expenditures of Federal Awards (SEFA) procedures updated as of 9/9/2024

## 2024 TransNet Triennial Performance Audit

Publish Date: May 2024

Recommendation	Number	Status	Management Comments
Ensure SANDAG Executive Management designated staff to have assigned responsibility for tracking against the Ordinance major corridor planned pledges at a detailed location boundary and scope level to be able to demonstrate what actual improvements were made.	1.1	Partly Implemented	SANDAG's new CFO, Dawn Vettese, is designated as the Executive Management responsible for overseeing the implementation of the TransNet Action Plan, including tracking against the Ordinance major corridor planned pledges. The hiring process has begun to fill the designated, budgeted position, and we anticipate this position to be filled on the second quarter of FY 2025.
Revamp or create new tools or spreadsheets to comprehensively track major corridor project delivery against Ordinance planned pledges at a detailed location boundary and scope level.	1.2	Started	Staff completed a new matrix to map the TransNet Ordinance projects to the respective TransNet Capital Improvement Projects (CIPs) and associated 2021 Regional Plan project(s). The matrix identifies the scope and boundaries of each Ordinance that have been completed, are still in process, or planned in the future. Information is also included on initial cost estimates, current funding totals, and clarifying comments where needed.
Make sure the revamped or new tools or spreadsheets comparing actual to planned project delivery for Ordinance major corridor planned pledges at a detailed location boundary and scope level are accurate and supported through links to project fact sheets, budget documents, google maps, or other specific project-level documents validating completion as appropriate	1.3	Started	The project information will be available online under the new proof of concept being developed.
Provide the detailed listing – or highlight just those original TransNet major corridor project boundaries and scopes that were not completed as pledged – to the Board and ITOC for use as part of annual budget conversations as well as the 2025 Regional Plan, and future regional plans.	1.4	Started	In response to recommendations from the 2024 TransNet Triennial Performance Audit, SANDAG staff has prepared a new comprehensive matrix of TransNet Ordinance projects and the corresponding Regional Plan projects and Capital Improvement Projects (CIPs), available on the TransNet Dashboard. Information is included on completion status, project scope, project limits, initial cost estimates, current funding totals, and clarifying comments where needed. The matrix also will be updated in 2025 with the finalization of the 2025 Regional Plan to correlate the remaining projects to their associated project number in the 2025 Regional Plan.
Update data in the TransNet Dashboard – or alternate public facing system designated in place of the Dashboard – on monthly basis to ensure up to date budget, expenditure, schedule, and status information is comprehensively available for both current in-progress major corridor projects and previous major corridor projects completed.	1.5	Started	Staff is working with IT to develop a plan to include prior CIP completed TransNet Major Corridor and Bike projects to the Dashboard. Data is still available in SharePoint if needed.

Recommendation	Number	Status	Management Comments
Work with MTS and NCTD to closely monitor ridership on the TransNet- funded routes against service frequency levels and report to the SANDAG Board and ITOC on the impact service adjustments may have on riders, including how actual services align with the original plans in the TransNet Ordinance.	2.1	<b>Started</b>	A new ridership dashboard tool will be introduced to planners and the public in the fall of 2024 to provide planners with an improved way to monitor ridership against service levels. Ridership and service frequency levels and their impacts on ridership will be added to the annual State of Commute Report brought to the Board and ITOC. The next TransNet Ordinance Amendment will include documentation on past and current service levels.
Ensure decisions made regarding funding MTS' and NCTD's transit operating service gaps or frequency expectations are documented with rationale supporting decisions and incorporated into Ordinance amendments as warranted.	2.2	<b>Partly Implemented</b>	At the quarterly Regional Short-Range Transit Planning (RSRTP) Task Force meetings, transit planning staff from SANDAG, MTS, and NCTD discuss the rationale for planned service levels as they relate to funding and ridership changes. Ridership and service frequency levels and their impacts on ridership will be added to the annual State of Commute Report brought to the Mobility Working Group, ITOC, and Board. The next TransNet Ordinance Amendment will include documentation on past and current service levels.
Ensure Executive Management designate staff with the assigned responsibility for tracking future remaining major corridor projects against the Ordinance planned pledges at a detailed location boundary and scope level to be able to demonstrate what actual improvements are planned and which remaining major corridor projects will not be completed.	3.1	<b>Partly Implemented</b>	SANDAG's new CFO, Dawn Vettese, is designated as the Executive Management responsible for overseeing the implementation of the TransNet Action Plan, including tracking against the Ordinance major corridor planned pledges. The hiring process has begun to fill the designated, budgeted position, and we anticipate this position to be filled on the second quarter of FY 2025.
Establish tools or mechanisms to track remaining Ordinance major corridor projects (boundaries and scope) clearly and accurately against the 2021 Regional Plan and future regional plans, including maintaining underlying supporting data reported.	3.2	<b>Started</b>	The Matrix completes the first section of this recommendation as to tracking projects against the 2021 Regional Plan and future plans.
Make sure the new tools or mechanisms comparing remaining Ordinance major corridor projects to regional plans at a detailed location boundary and scope level are accurate and supported through links to planning documents, budget information or plans of finance, or other documents as appropriate.	3.3	<b>Implemented</b>	Staff completed a new matrix to map the TransNet Ordinance projects to the respective TransNet Capital Improvement Projects (CIPs) and associated 2021 Regional Plan (RP) project(s). The matrix identifies the scope and boundaries of each Ordinance that have been completed, are still in process, or planned in the future. Information is also included on initial cost estimates, current funding totals, and clarifying comments where needed. A link has been added in the Matrix to send the reader directly to Appendix A with the associated 2021 RP project.

Recommendation	Number	Status	Management Comments
Provide a detailed listing to the Board and ITOC annually – or highlight those remaining original TransNet major corridor project boundaries and scope that will not be completed as pledged – starting in 2024 before completion of the future 2025 Regional Plan and regularly thereafter	3.4	Partly Implemented	In response to recommendations from the 2024 TransNet Triennial Performance Audit, SANDAG staff has prepared a new comprehensive matrix of TransNet Ordinance projects and the corresponding Regional Plan projects and Capital Improvement Projects (CIPs). The matrix will also be updated in 2025 with the finalization of the 2025 Regional Plan to correlate the remaining projects to their associated project number in the 2025 Regional Plan.
Present proposed amendment to the Board to align planned major corridor projects from the TransNet Ordinance with the current 2021 Regional Plan as required by the TransNet Ordinance.	3.5	Started	
Present the details of the next Plan of Finance to the Board and ITOC including specific amounts of funding shortfalls by subprogram and program-wide, in addition to the timeframe when shortages may begin to affect project delivery.	4.1	Started	Staff established timeline for the 2024 POF and are working on updating costs and revenues to present to the BOD/ITOC in early 2025.
Develop specific options and corresponding timelines on possible actions to address funding shortfalls for the Board and ITOC that clearly state the impact of each option at the project- level, including how options will compare to what was originally pledged in the ordinance for each project.	4.2	Started	Funding shortfalls will be determined during the run of the 2024 POF.
Develop, implement, and use a format, transparent, and vetted methodology and strategy for reprioritizing pledged ongoing and future TransNet major corridor projects against limited funding – including how funds are moved between projects and factors are weighed for starting new projects when other ongoing projects may have unmet funding needs.	4.3	Started	Staff is creating a funding matrix for TransNet funded projects that will provide greater transparency to how projects are selected for TransNet funds.
Revamp the smart growth grant application form to clearly identify quantified, detailed objectives and deliverables to allow for meaningful analysis.	5.1	Started	Grants staff have held discussions with Planning staff about possible updates that could be made and would be relevant to each particular project type. Staff also mentioned these updates would be made to the upcoming Cycle 6 call for projects during the Sustainable Communities, Mobility, and Social Equity Working group meetings in June 2024 as well as the Transportation Committee meeting in July as part of soliciting feedback for the call for projects.

Recommendation	Number	Status	Management Comments
Require grantees to include a well- defined description of what will be constructed through the project to affect desired smart growth outcomes.	5.2	Started	Grants staff have held discussions with Planning staff about changes to the application template that could be made to address this item.
Require grantees to report on the quantifiable performance metrics now required in grant awards related to promoting smart growth goals to create compact, walkable, bikeable and transit-oriented communities and increase housing and transportation choices around the region as applicable.	5.3	Started	Grants and Planning staff have conducted research to identify performance measures that could be used and are working on adding these to the Cycle 6 call for projects.
Put practice in place to summarize grantee performance data, analyze success of grant efforts, and reports to ITOC.	5.4	Started	Grants staff began requiring performance measures of all new grants awarded in 2022 or later. The data is being collected and will be reported to ITOC beginning in January 2025.
Review grantees final close out reports and investigate any items that grantees marked as "in-progress."	5.5	Implemented	A new Grant Closeout Checklist was implemented in June 2024 that requires all grants to be reviewed in detail prior to processing the final payment or closing out. Included in the checklist is a review of the final progress report to ensure all items are completed, all deliverables have been provided to SANDAG, and that there are no outstanding issues on the project that need to be resolved.
Validate that smart growth grantees met all objectives and verify that grantees provided deliverables at project close-out during site visits.	5.6	Implemented	A new Grant Closeout Checklist was implemented in June 2024 that requires all grants be reviewed in detail prior to processing the final payment or closing out. For construction projects, a site visit is conducted where the Program Manager goes to the project site and verifies that all work was completed per the grant scope of work and documents this on a Capital Project Site Visit Report. The completed checklist and report files are included as an attachment in ERP when the final invoice and retention release requests are routed for approval to ensure that no final payments are made without the required documentation. These process changes will be included in the Standard Operating Procedures that are under development and will be completed in FY25.
Require SANDAG Executive Management to take an active role in overseeing the implementation of the ITOC audit recommendations and hold staff accountable for timely corrective action.	6.1	Started	This is an ongoing effort.
Set timelines for local agency consensus on proposed Ordinance amendments and then take the related amendments to the Board for consideration soon after.	6.2	Started	Staff is working with new Executive Leadership to reestablish a schedule and review of the TransNet Ordinance Amendments.
Immediately propose the amendments to the Board for the ITOC changes and other areas relating to the prior audit recommendations.	6.3	Started	Planned implementation date of 6-2025. ITOC Chair Frankel and subcommittee Chair House in August 2024 requested that the ITOC Ordinance Amendments be delayed due to further time needed to review. An item has been added to the September 2024 ITOC agenda to create a new subcommittee to review the proposed changes and create a new schedule for this item.

## 2021 TransNet Triennial Performance Audit

Publish Date: March 2021

Recommendation	Number	Status	Management Comments
Clearly identify whether the remaining TransNet Extension Ordinance projects will be part of the 2021 Regional Transportation Plan, before the SANDAG Board approves the 2021 plan, and provide a similar identification for any key changes in future Regional Transportation Plans.	1.1	Partly Implemented	Staff completed a new matrix to map the TransNet Ordinance projects to the respective TransNet Capital Improvement Projects (CIPs) and associated 2021 Regional Plan project(s). The matrix identifies the scope and boundaries of each Ordinance that have been completed, are still in process, or planned in the future. Information is also included on initial cost estimates, current funding totals, and clarifying comments where needed.
Develop regular crosswalks to summarize and compare planned major corridor projects outlined in the TransNet Extension Ordinance with current improvement implementation status by identifying project progress in terms of “complete”, “in-progress”, “cancelled”, or “moved beyond 2048 and outside the TransNet Extension Ordinance period”. SANDAG should complete this reconciliation annually, at the minimum when it revises its Capital Improvement Program Budget, or when SANDAG makes a major update to the Regional Transportation Plan and explain deviations from the TransNet Extension Ordinance including scope expansions, reductions, or mergers with other project segments through a log that captures all explanations. When performing this reconciliation, SANDAG should utilize a consistent numbering format or key identifier for each project to facilitate the tracking of changes over time.	1.2	Partly Implemented	Staff completed a new matrix to map the TransNet Ordinance projects to the respective TransNet Capital Improvement Projects (CIPs) and associated 2021 Regional Plan project(s). The matrix identifies the scope and boundaries of each Ordinance that have been completed, are still in process, or planned in the future. Information is also included on initial cost estimates, current funding totals, and clarifying comments where needed.
Develop and adopt a formal process to address issues identified during annual Plan of Finance updates that discusses short-term and long-term funding scenarios and how options specifically impact the scope and schedule of remaining TransNet Extension Ordinance projects. The plan should include clear methodology, criteria, and triggers for making decisions on TransNet Extension Ordinance projects if funding does not materialize as expected and how to make choices to reduce scope, delay, or eliminate projects from the TransNet Extension Ordinance portfolio.	2.1	Partly Implemented	Staff will document a process to analyze and recommend alternatives based on POF results.



Recommendation	Number	Status	Management Comments
Develop a risk-based approach for Quality Assurance/Quality Control testing and indication of review to strengthen documentation of Quality Assurance/Quality Control activities employed and results to better demonstrate data verifications.	2.2	Partly Implemented	In FY25 Q1, staff are focused on high priority, high risk projects related to Regional Plan inputs such as Regional Forecast SCS scenarios, revenue estimates and performance measures. Our emphasis continues to include thorough and detailed test plans, with ongoing communication with SMEs., incorporation of Python scripting to ensure repeatable and well documented QA processes, and recommendation of best practices to SMEs regarding process methods and documentation.
Enhance organization of Peer Review Process supporting documents by providing a corresponding table to capture topics discussed, reference items to checklists, and close out memos to better link what was planned, what was done, and how issues were addressed.	2.3	Partly Implemented	In FY25 Q1, staff has conducted or planned peer reviews on Commercial Vehicle Modeling, Vision Zero Action Plan Safety Corridor Network, transit study data analysis and the TransNet Plan of Finance update. Staff are incorporating recommended summary tables before finalizing peer review documents.
Clearly describe to the Board the Quality Assurance/Quality Control sampling methodology employed, any limitations of the data, and associated cost-benefits or risks of the approach.	2.4	Partly Implemented	As new items that have undergone QA and/or PRP review go to the Board, staff will add information on risk assessment, prioritization, limitations of data and sampling per auditor recommendations.
Continue valuable efforts to formalize and pursue a mature system of Quality Assurance/Quality Control policies and procedures as well as consistent implementation of the policies and procedures.	2.5	Implemented	Per the TransNet Performance Auditor's 2024 review, this item is considered complete and will be maintained going forward.
Clearly and comprehensively report on actual progress and accomplishments (or lack thereof) against the TransNet Extension Ordinance on a regular, periodic basis—such as quarterly or annually—for project scope, costs, schedule, accomplishments, and outcomes against promises.	3.1	Partly Implemented	Staff completed a new matrix to map the TransNet Ordinance projects to the respective TransNet Capital Improvement Projects (CIPs) and associated 2021 Regional Plan project(s). The matrix identifies the scope and boundaries of each Ordinance that have been completed, are still in process, or planned in the future. Information is also included on initial cost estimates, current funding totals, and clarifying comments where needed.
Demonstrate compliance with the TransNet Extension Ordinance by identifying, tracking, and reporting on various requirements and provisions to the Board and ITOC on a regular, periodic basis—such as quarterly or annually.	3.2	Partly Implemented	Staff has completed a TransNet Ordinance vs. CIP Matrix and will present this to the ITOC in September 2024.
Implement shorter-term steps to report on performance, while waiting on the longer-term Transportation Performance Management Framework, including continued development of SANDAG's proposed "Goals and Provisions" document to distribute to the Board and ITOC.	3.3	Partly Implemented	Staff has created a TransNet Ordinance Matrix and will be updating the Quarterly Reports to provide more graphical representations. New staff will be hired in FY 2025 to focus on this recommendation and will work with the Communications team to provide a more graphical representation of TransNet Ordinance reporting.
Create summarized graphics to quickly indicate TransNet Extension Ordinance status based on data in the revised quarterly reports for reporting to the Board and ITOC.	3.4	Partly Implemented	Staff has created a TransNet Ordinance Matrix and will be updating the Quarterly Reports to provide more graphical representations. New staff will be hired in FY 2025 to focus on this recommendation and will work with the Communications team to provide a more graphical representation of TransNet Ordinance reporting.



Recommendation	Number	Status	Management Comments
AB 805 Weighted Voting Did Not Significantly Change Delivery of TransNet Extension Ordinance Programs and Projects.  No recommendations in this Chapter.	4	<b>Dropped</b>	No recommendations to track related to this finding.
Consider the benefits of identifying a regional safety planning coordinator to synchronize safety efforts of the region and regularly communicate progress on safety goals to the Board and ITOC.	5.1	<b>Implemented</b>	Technically, SANDAG considered the benefits and has taken steps to develop a Regional Vision Zero action plan, that if implemented, would help synchronize regional safety efforts and set goals and strategies for the region.
Consider and prepare a regional safety plan that complements Caltrans' Statewide Plan and details SANDAG's vision, goals, objectives, and strategies to address regional trends, road conditions, and driving behaviors.	5.2	<b>Partly Implemented</b>	The Final Vision Zero Action Plan will be presented to the Transportation Committee in Fall 2024. After the presentation to the Transportation Committee, as an Information Item, this recommendation can be deemed complete.
Consider ways to encourage state and local emergency, planning, and response entities to include SANDAG in discussions and local plans related to emergency capacity so that regional planners stay informed and collaborate on emergency and resilience issues.	5.3	<b>Partly Implemented</b>	Staff will continue outreach and engagement process development, including emergency response stakeholder representation on the multidisciplinary Technical Advisory Group for the Regional Vision Zero Action Plan. Staff will provide regular updates to SANDAG working groups and policy advisory committees.
Consider estimating and communicating to the Board and ITOC the quantifiable impact of permit delays on individual Bike Early Action Program projects and the overall Regional Bikeway Program.	6.1	<b>Partly Implemented</b>	SANDAG Staff will report on permit delays in quarterly reporting. SANDAG Staff will discuss whether there is a standard method for determining permit review times for common permit types, projects, and the permitting entities/departments, and at which point those delays can be tracked quantifiably.
Work with the Board to have leadership collaborate with its representatives from the City of San Diego to rectify critical Bike Early Action Program project permit issues.	6.2	<b>Partly Implemented</b>	SANDAG and City of San Diego Executive Meeting took place on Thursday September 5, 2024 with new SANDAG staff in leadership roles to assist in agency coordination and next steps. Staff will continue looking for additional ways to deliver the Bike EAP more effectively and continue working with partner agencies and other stakeholders to better coordinate and expedite project delivery going forward. SANDAG is working with the Engineering and Capital Projects Division at the City of San Diego to improve project review efficiency.
Revise existing quarterly status reports to compare progress against initial Bike Early Action Program plans for costs, schedules, and miles expected and clearly communicate whether the 10-year Bike Early Action Program completion goals or other future project goals are realistic or in jeopardy—in addition to proposing action steps to remedy any identified issues.	6.3	<b>Implemented</b>	The January 11, 2023 presentation of a crosswalk (that will be updated annually) contains this information.

Recommendation	Number	Status	Management Comments
Develop a crosswalk that summarizes and compares planned Bike Early Action Program projects outlined in the Regional Bikeway Program with current project segment implementation status by budget, schedule, phase, and miles. SANDAG should complete this reconciliation annually, at a minimum when it revises its Capital Improvement Program Budget and explain any deviations from Bike Early Action Program plans including scope expansions, reductions, or mergers with other project segments through a log that captures all explanations.	6.4	Implemented	The crosswalk presented to ITOC on January 11, 2023 (Item 11) summarizes and compares the planned against actuals for budget, schedule, phase, and miles.
Modify TransNet Dashboard data or Board reports to compare actual individual project data against original baseline budgets and schedule by project phase to more clearly show progress against initial plans and provide explanatory context in addition to aligning TransNet Dashboard project phase categories with those used in individual project management tools.	6.5	Partly Implemented	Collaboration has begun with IT, Communications, and the Capital Project Office for the design of a new TransNet Dashboard page on SANDAG.org. Staff is considering options for how to best display project information and categorize projects by phase.
Track and analyze more granular internal project milestones within Bike Early Action Program project phases—such as planned and actual schematic design, detailed design, right-of-way, utility coordination, and construction documents, to better identify where possible impediments and delays occur and may need to be addressed.	6.6	Partly Implemented	SANDAG staff continues to report on project milestones in quarterly reporting, most recently in the July 2024 Bikeways Quarterly Status Report with revisions to the format in progress for project managers to use in the next (October) Quarterly Status Report to better facilitate this granular milestone tracking.
Provide extra scrutiny on less certain Regional Bikeway Program on assumed funding from less certain sources, including the state's Active Transportation Program competitive grant source, during subsequent updates to the Regional Bikeway Program Plan of Finance, to identify potential capacity and revenue constraints or opportunities and have annual processes in place to evaluate and modify the mix of projects if funding does not occur as expected.	6.7	Started	The next Plan of Finance is in development and anticipated to be presented by December 2024.
Ensure TransNet Dashboard Bike Early Action Program schedule and budget fields are complete and include explanatory notes on why particular data may not be applicable to a project stage in addition to consider splitting certain projects and their related cost and schedule data into phases on the TransNet Dashboard when SANDAG plans for a staggered delivery.	6.8	Implemented	

Recommendation	Number	Status	Management Comments
Incorporate existing conflict-of-interest policy clarifications from ITOC new member onboarding resources into recruitment materials, emphasize in recruitment efforts that a potential conflict does not automatically disqualify prospective applicants, and clarify when members should recuse themselves from certain decisions because of potential perceived conflicts	7.1	Implemented	
Modify the TransNet Extension Ordinance language to be consistent with the service limits for all members regardless of whether a member joins the committee to fill a full-term position or mid-term vacancy.	7.2	Implemented	
Consider expanding the ITOC qualifications to include knowledge of emerging topics SANDAG presents before the committee such as multi-modal planning, active transportation, transportation system management and operations, transportation planning, performance measures, and legal issues.	7.3	Partly Implemented	On August 1, 2024, the ITOC Chair, Maryam Babaki, and the Subcommittee to Consider ITOC Ordinance Amendments met to discuss the next steps. The ITOC Subcommittee and Chair Babaki decided to postpone their presentation of the Ordinance amendments to the Board so that they can discuss additional revisions to the ITOC membership and the two additional categories.
Explore options and feasibility of moving ITOC candidate screening and selection process outside of the SANDAG Board to maximize appointment transparency and minimize any perceived selection bias.	7.4	Partly Implemented	The ITOC will be asked in September to appoint one subcommittee member. The subcommittee will discuss additional updates to the Ordinance amendments in Fall 2024. Depending on the outcomes of subcommittee discussions, the presentation to the Board is anticipated to be in Winter 2024. As a result, the target completion date will be updated to Winter 2024.

## 2018 TransNet Triennial Performance Audit

Publish Date: June 2018

Recommendation	Number	Status	Management Comments
ITOC should direct SANDAG to leverage historical data and previous Plans of Finance.	1.1	Partly Implemented	The next Plan of Finance update is anticipated to be presented in early 2025.
ITOC should direct SANDAG to continue efforts to increase the transparency of sales tax revenue forecasts.	1.2	Implemented	
ITOC should direct SANDAG to establish a formal structured protocol to review funding sources.	1.5	Partly Implemented	The next Plan of Finance update is anticipated to be presented in early 2025.
ITOC should direct SANDAG to monitor TransNet revenues and debt service obligations against needed growth projections.	1.6	Implemented	
ITOC should direct SANDAG to identify methods to assess options, if needed, to delay, eliminate, or reduce scope of projects.	1.7	Partly Implemented	TransNet ordinance projects are evaluated with each Regional Plan update using current data such as traffic volumes, population, housing, and jobs forecasts, transportation model performance measure results, compliance with the most recent federal and state requirements, and other factors related to project readiness, constructability timelines, and funding availability. This evaluation will be completed with every Regional Plan update.
ITOC should direct SANDAG to monitor and report on the impacts of changing technologies on the transportation network and future TransNet projects.	1.8	Implemented	
ITOC should request SANDAG to set targets to measure TransNet performance against the TransNet Extension Ordinance goals.	2.1	Partly Implemented	Staff is working with updating the Goals and Provisions sheet to determine how the information should be displayed. Finance staff has been working with Data Science staff to see if data can be presented by Corridor and by FY going back to FY 2009.
ITOC should request SANDAG to capture performance outcome data related to safety metrics, pavement condition, and bridge condition.	2.2	Partly Implemented	Staff is working with updating the Goals and Provisions sheet to determine how the information should be displayed. Finance staff has been working with Data Science staff to see if data can be presented by Corridor and by FY going back to FY 2009.
ITOC should request SANDAG to conduct a more robust analysis of cause and effect for all performance metrics.	2.3	Implemented	
ITOC should request SANDAG to provide regular performance monitoring reports that consider past performance in relation to TransNet goals.	2.4	Partly Implemented	Software is needed for to be completed. Staff also needs to wait for TransNet Ordinance Amendments to be implemented.
ITOC should request SANDAG to consider allocating funding for additional performance monitoring activities.	2.5	Started	
ITOC should request SANDAG to explore and study public-private partnerships.	2.6	Implemented	SANDAG has explored getting this data from private entities, Caltrans, and the federal government. Consider recommendation complete.

Recommendation	Number	Status	Management Comments
ITOC should request SANDAG to begin gathering data on whether the Construction Manager/General Contractor (CMGC) method used on the Mid-Coast Corridor Transit project is delivering on expectations.	3.2	Implemented	Report and analysis will be included in 10.09.24 ITOC meeting.
ITOC should request SANDAG to gather and store documents to support "benefit" statistics tracked for the North Coast Corridor and the Mid-Coast Corridor.	3.3	Implemented	Mid-Coast Corridor: Continue to store collected benefit statistics and supporting documentation and utilize the information to analyze benefits.
ITOC should request SANDAG to revisit the TransNet Extension Ordinance congestion relief and maintenance split.	4.1	Implemented	Mid-Coast Corridor: Continue to store collected benefit statistics and supporting documentation and utilize the information to analyze benefits. NCC Corridor: To be provided by Caltrans.
ITOC should request SANDAG to continue to monitor compliance with SANDAG Board Policy No. 031, Rule 21.	4.2	Partly Implemented	
ITOC should request SANDAG to conduct another review of local projects.	4.3	Partly Implemented	
ITOC should request the SANDAG Board to direct SANDAG to continue to analyze major transit commute routes and services.	5.1	Partly Implemented	Public Transit Ridership Dashboard will be released by the end of calendar year.
ITOC should request the SANDAG Board to direct SANDAG to review and update EMP cost estimates in light of higher costs than anticipated.	7.2	Implemented	
ITOC should request the SANDAG Board to direct SANDAG to consider the most efficient use of available funding and possible adjustments.	7.3	Implemented	
ITOC should request the SANDAG Board to direct SANDAG to make changes, as appropriate, to marketing efforts for the local streets and road mitigation bank funding.	7.5	Implemented	
ITOC should request the SANDAG Board to direct SANDAG to regularly report on implementation of TransNet Extension Ordinance goals.	8.1	Partly Implemented	Staff is working with updating the Goals and Provisions sheet to determine how the information should be displayed. Finance staff has been working with Data Science staff to see if data can be presented by Corridor and by FY going back to FY 2009.
ITOC should request the SANDAG Board to direct SANDAG to revamp SANDAG website to capture documents pertinent to TransNet in a centralized area.	8.4	Implemented	
ITOC should request the SANDAG Board to direct SANDAG to ensure data on completed projects is maintained in the Dashboard.	8.5	Implemented	

## FY 2023 ITOC TransNet Extension Activities Report

Publish Date: July 2024

Recommendation	Number	Status	Management Comments
City of Coronado must use approved exaction <sup>1</sup> fee.	1	Started	Will follow up with City to see if they have collected the shortfall. The FY 2024 audit will review the status of this finding.
City of Del Mar must use approved exaction fee.	2	Started	Will follow up with City to see if they have collected the shortfall. The FY 2024 audit will review the status of this finding.
City of El Cajon must use approved exaction fee.	3	Started	Will follow up with City to see if they have collected the shortfall. The FY 2024 audit will review the status of this finding.
City of La Mesa must use approved exaction fee.	4	Started	Will follow up with City to see if they have collected the shortfall. The FY 2024 audit will review the status of this finding.
County of San Diego must use approved exaction fee.	5	Started	Will follow up with County to see if they have collected the shortfall. The FY 2024 audit will review the status of this finding.
City of Solana Beach RTCIP funding not expended nor committed within seven years of collection.	6	Implemented	Since Solana Beach passed resolution 2023-122 on November 8, 2023, the funds were "committed" - bringing the city into compliance. No further action needed on this.

<sup>1</sup> Exaction fee refers to the pre-determined minimum fee collected from the private sector by 18 local cities and the County of San Diego for each new housing unit constructed in that jurisdiction, which is used to fund the Regional Transportation Congestion Improvement Program (RTCIP).

**SANDAG**

**OIPA**

**Office of the Independent  
Performance Auditor**

# Audit and Investigation Recommendation and Corrective Action Plan Status Report

Update as of August 30, 2024



Courtney Ruby, CPA, CFE  
Independent Performance Auditor

## Message from the Independent Performance Auditor

I am pleased to present the annual Audit and Investigation Recommendation and Corrective Action Plan Status Report, prepared by the Office of the Independent Performance Auditor (OIPA).

### Background

In accordance with Board Policy No. 039: Audit Policy Advisory Committee and Audit Activities, section 3.1.9 states the responsibilities of the Audit Committee include:

*Monitor the implementation of corrective action identified in audit and investigative reports and inform the Board when corrective action is insufficient or untimely.*

The OIPA's authorized annual Audit Work Plan includes:

#### Goal #4 – Development and Monitoring of Corrective Action Plans

- *Ensure OIPA's recommendations are clear, timely, and responsive, and implemented by management expeditiously.*

Most OIPA resources are dedicated to conducting performance audits to assess the economy, efficiency, effectiveness, equity, and compliance of programs and activities. Performance audits provide independent objective analysis to SANDAG's leadership and the public, and make recommendations to management, and those charged with governance and oversight, on how to improve services, reduce costs, and increase public accountability.

### Report Overview

This report provides a comprehensive overview of the status of all audit and investigation recommendations, with planned implementation dates on or before August 30, 2024.

The report includes recommendation and corrective action updates from the following audits: Contracts and Procurement Operational and System Control Audits (Parts I and II), Operational Process and System Control Audit for Board Member and Employee Travel and Business-Related Reimbursements, Continuous Auditing Operations Process and System Control Review of Purchase Cards, and the Operational Process and System Control Review of Vendors. The State Route 125 Toll Operations Investigation is included as well.

This report aims to inform the SANDAG Board of Directors, SANDAG Management, San Diego County residents, and other stakeholders about the status of audit and investigation recommendations as of August 30, 2024, including those in progress,



delayed, or fully implemented. The OIPA verifies all information provided by SANDAG departments regarding their progress for each corrective action by reviewing documentation and/or conducting testing to independently verify results.

The five audits detailed in this report contained 120 total recommendations. Of those, 38 were implemented and 7 were dropped during this reporting period. 75 recommendations are outstanding meaning they are started, partly implemented, or pending and will be tracked into Fiscal Year 2025.

The one investigation detailed in this report included 10 total recommendations. Of those, 2 were implemented within the reporting period, 4 were started and 4 were not started.

### **Important Management Update on Enterprise Resource Planning (ERP) System and Contract Management System (CMS)**

I would like to bring attention to an important issue raised during the confirmation of corrective actions for the Contracts and Procurement Operational and System Control Audits (Parts I and II). Management informed OIPA that the Enterprise Resource Planning (ERP) system is unable to fully support certain complex functions required by the agency's procurement program. Consequently, management has decided that the prior Contract Management System (CMS) and the ERP will be used together to support the agency's procurement functions. Management informed the OIPA that the CMS will manage solicitation, procurement, and contract award activities, while the ERP will remain the system of record for budgeting and accounting related to awarded contracts.

Management also informed the OIPA that the contracts module within the ERP will continue to be used as the system of record for budgeting and accounting activities related to awarded contracts, despite it being less efficient for procurement tasks compared to the previous CMS. During our recommendation implementation testing, the OIPA confirmed the inefficiencies noted by Management.

Management intends to develop a work plan to address the system deficiencies and transition back to using the CMS for procurement functions. This plan will include an assessment of how to integrate CMS with the ERP for financial control, with key milestones anticipated to be completed by June 30, 2025.

### **OIPA's Course of Action in Response to Management's Update**

Given this development, the OIPA will revisit all recommendations affected by these system changes after the transition occurs, or during the next annual audit and

investigation recommendation and corrective action status update process, whichever occurs sooner. All affected recommendations are noted in the report.

### How to Use This Report

This report is informational. It provides a comprehensive overview of the status of all audit and investigation recommendations and does not include any new recommendations. Instead, it serves as a reminder to management, and those charged with governance and oversight, on the critical issues identified in past audits and investigations, and the need for responsive and timely implementation of all corrective action plans to ensure identified deficiencies are corrected, internal controls are strengthened, and SANDAG's regional government operates effectively and efficiently.

The OIPA would like to thank SANDAG Management and departmental staff for their assistance in tracking, implementing, and facilitating testing on the audit recommendations included in this year's report.

Sincerely,



Courtney Ruby, CPA, CFE  
Independent Performance Auditor

Released October 4, 2024  
Updated October 21, 2024

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## Audits in This Report

### Contracts and Procurement Operational and System Control Audit Report (Part I)

Part I was extensive and involved testing and reviewing operational processes and system controls within the organization. The objective of this engagement was to audit SANDAG's management of contracts and procurement. Specific objectives were to review policies and procedures, evaluate the effectiveness of internal controls, and test contracts and procurement transactions for appropriateness, allowability, and proper documentation. Part I focused on internal operations, including processes, policies, system controls, and practices.

### Contracts and Procurement Operational and System Control Audit Report (Part II)

Part II involved testing contractors' performance and adherence to the contract, outcomes results, and invoicing. The objective of this audit was to review SANDAG's management of contracts and procurement. Specific objectives included testing and evaluating whether policies, procedures, and internal controls over processes existed, were being followed, and functioning effectively. The final objective included testing contracts and procurement transactions to determine whether they were appropriate, allowable, and supported by adequate documentation. Part II focused on the contractor's adherence to the contract, proper submittal of documentation when invoicing, work product and results, timelines, and commitments.

### Operational Process and System Control Audit for Board Member and Employee Travel and Other Business-Related Reimbursements

The objectives of this audit were to examine SANDAG's operational processes and system controls related to Board member and employee travel and other business-related reimbursements to ensure policies and controls existed and were followed.

## Continuous Auditing Operations Process and System Control Review – Purchase Cards

The objectives of this audit were to ensure that staff adheres to SANDAG's purchase card policy, including policies which took effect on July 1, 2022, and to apply tests and perform procedures to verify that controls are sufficient and consist of supporting documentation and other relevant data to assess SANDAG's ability to properly and sufficiently track, obtain sufficient documentation, and keep adequate records of processes and controls that support adherence to purchase card policies and procedures.

## Operational Process and System Control Review of Vendors

The objectives of this audit were to review SANDAG's operational processes and system controls to ensure policies were consistent with federal and state regulations and other applicable governing laws, rules, and regulations; to verify that controls were sufficient and consisted of supporting documentation, and other relevant data; and to assess SANDAG's ability to track, obtain sufficient documentation, and keep adequate records of process and controls that supports adherence to policies and procedures.

## Implementation Status Definitions

Following the close of Fiscal Year 2024, the Office of the Independent Performance Auditor (OIPA) contacted SANDAG departments to gather information and obtain updates on all outstanding OIPA audit recommendations. Based upon the information received and testing performed, each recommendation was placed into one of the following categories:

**Pending** – The recommendation is not scheduled to be implemented yet per the responsible party's initial response on the Corrective Action Plan provided to the SANDAG Board of Directors.

**Not started** – The responsible party temporarily postponed implementing the recommendation or did not demonstrate sufficient progress toward implementing the recommendation.

**Started** – The responsible party began implementing the recommendation, but considerable work remains.

**Partly Implemented** – The responsible party satisfied some elements of the recommendation, but additional work and testing remains.

**Implemented** – The responsible party provided documentation and the OIPA verified the satisfactory implementation of the recommendation.

**Dropped** – The IPA eliminated the recommendation due to a change in circumstances rendering it no longer necessary, or recommendation was determined to be outside of audit scope.<sup>1</sup>

## Implementation Date Definitions

**Planned Implementation Date** – Original date for implementation provided by responsible party when audit/investigation issued.

**Revised Date of Implementation Date** – Responsible party revised the original date for implementation.

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<sup>1</sup> At request of the Audit Committee on October 11, 2024, the dropped recommendations contained in this report have been further clarified, and the chart on page 8 was updated to clearly identify dropped recommendations.

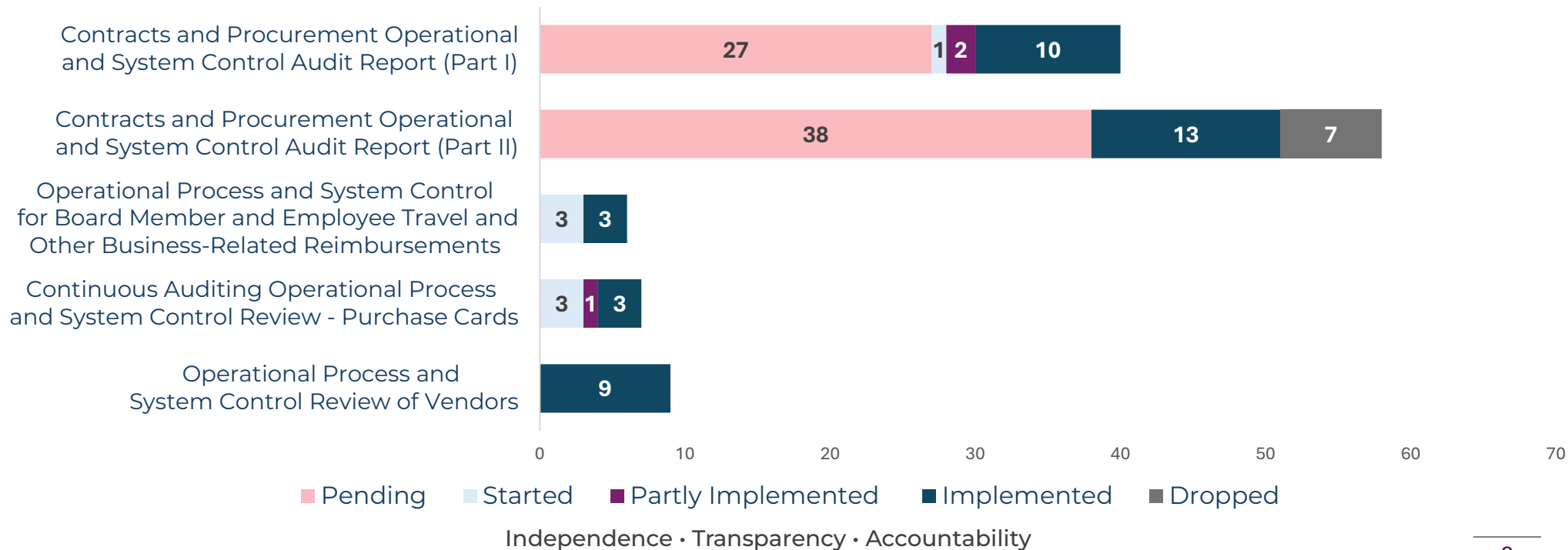
## Summary of Audit Recommendations

This audit recommendation and corrective action plan status report documents the status for all audit recommendations with planned implementation dates by or before August 30, 2024.

The five audits detailed in this report contained **120 total recommendations**. Of those, **38 were implemented** and **7 were dropped** during this reporting period. **75 recommendations are outstanding** – meaning they are started, partly implemented, or pending and will be tracked into Fiscal Year 2025.



The graph below illustrates the corrective action implementation status by audit:



# Contracts and Procurement Operational and System Control Audit Report (Part I)

Publish Date: October 2022

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Creating formalized SOPs with step-by-step instructions for tasks for both contract analysts and project managers (e.g., desk procedures).	1.1	Pending	12/31/2025		Director of Contracts and Procurement Services	
Providing formal and regular training to contract analysts and project managers on their assigned roles, responsibilities, and procedures.	1.2	Pending	12/31/2025		Director of Contracts and Procurement Services	
Updating the Procurement Manual to clearly identify and segregate roles and responsibilities for contract analysts and project managers.	1.3	Pending	12/31/2024		Senior Director of Organization Effectiveness & Director of Contracts and Procurement Services	
Creating SOPs for contract analyst and project manager specific tasks.	2.1	Pending	12/31/2025		Director of Contracts and Procurement Services	
More clearly segregating the duties of contract analysts and project managers.	2.2	Pending	12/31/2024		Director of Contracts and Procurement Services	
Providing consistent training for contract analysts provided by contracts subject matter experts and/or management.	2.3	Pending	12/31/2025		Director of Contracts and Procurement Services	
Providing annual and/or continuous training on the Procurement Manual and SOPs for both contract analysts and project managers.	2.4	Pending	12/31/2025		Director of Contracts and Procurement Services	



Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Identifying and requiring that employees meet specific qualifications and have attended external formal project manager specific training prior to being assigned to a project manager role; for employees assigned as project managers over higher risk and dollar projects, formal certified project manager training should be required.	2.5	Pending	12/31/2025		Director of Contracts and Procurement Services	
Encouraging external training provided by professional associations specific to contracts (such as CAPPO and NIGP) and project management.	2.6	Pending	12/31/2025		Director of Contracts and Procurement Services	
Requiring detailed/itemized invoices and progress reports or detailed summary of work performed for a payment to be processed e.g., source documents such as detailed timesheets or task specific assignment sheets that supports labor or work product results, goods and/or receiving receipts from third parties, etc.	3.1	Pending	9/30/2024		Director of Accounting and Finance	
Updating Request for Payment Form to explicitly require itemized invoices to be attached.	3.2	Implemented	9/30/2024		CFO and Director of Accounting and Finance	Testing confirmed corrections meet requirements.
Creating formal SOPs and training for invoice payment to include instructions/methods for verifying invoiced work is included in the contract/task order.	3.3	Started	9/30/2024		Director of Accounting and Finance	Per Management, invoice training will commence by the end of September 2024 with multiple sessions offered through the fall to ensure all PMs receive the training.
Updating contract templates to require detailed/itemized invoices as well as progress reports or detailed summaries of work performed to be included with invoices.	3.4	Implemented	9/30/2024		Director of Contracts and Procurement Services	Documents confirmed corrections meet requirements.
Replacing the CMS with a system that properly interfaces with the agency's enterprise resource planning system (ERP) or is a system within the agency's ERP, with the ability to communicate / integrate with finance encumbrance, invoice, and payment records to include tracking, searching, and recording invoice payments against contracts, task orders, etc. The replacement ERP and the data stored within should also be user-friendly, easily accessible, and easily reportable.	4.1	Implemented	Summer 2023		Senior Director of Organization Effectiveness & Director of Contracts and Procurement Services	Testing confirmed corrections meet requirements. <i>Due to inefficiencies, plans are underway to return to CMS. OIPA will revisit this recommendation after the transition back to CMS.</i>

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Providing staff training and step-by-step SOPs on using the replacement CMS and submitting all types of procurement requests.	4.2	Implemented	12/31/2024		Director of Contracts and Procurement Services	Documents confirmed corrections meet requirements. <i>Due to inefficiencies, plans are underway to return to CMS. OIPA will revisit this recommendation after the transition back to CMS.</i>
Ensuring staff can query to identify the contractor and subcontractor efficiently and easily within the replacement CMS without going to various other platforms or documents	4.3	Partly Implemented	Summer 2023		Director of Contracts and Procurement Services	ERP only lists contractors; staff must navigate through CIS <sup>2</sup> to search for approved subcontractors.
Ensuring that all contracts and contract-related records and documents are stored in 1 easily accessible location, preferably within the replacement CMS.	4.4	Pending	12/31/2024		Director of Contracts and Procurement Services	<i>Due to inefficiencies, plans are underway to return to CMS. OIPA will revisit this recommendation after the transition back to CMS.</i>
Ensuring the replacement CMS is updated with correct and complete information and data to correct the inaccuracies and blanks from the current CMS records.	4.5	Implemented	Summer 2023		Director of Contracts and Procurement Services	Documents confirmed corrections meet requirements. <i>Due to inefficiencies, plans are underway to return to CMS. OIPA will revisit this recommendation after the transition back to CMS.</i>
Requiring that the listed project manager for a contract is the actual project manager in the replacement CMS.	4.6	Partly Implemented	TBD		Director of Contracts and Procurement Services	ERP requires the Project Manager be listed, but in some instances, this may be the requestor and not the actual project manager.
Specify required fields in the replacement CMS and require all mandatory fields to be completed.	4.7	Implemented	Summer 2023		Director of Contracts and Procurement Services	Testing confirmed corrections meet requirements. <i>Due to inefficiencies, plans are underway to return to CMS. OIPA will revisit this recommendation after the transition back to CMS.</i>
Providing staff certain access to the replacement CMS, based on their job duties.	4.8	Implemented	Summer 2023		Director of Contracts and Procurement Services	Testing confirmed corrections meet requirements. <i>Due to inefficiencies, plans are underway to return to CMS. OIPA will revisit this recommendation after the transition back to CMS.</i>

<sup>2</sup> The Compliance Information System (CIS) is maintained by the Office of Diversity & Equity and is a web-based application used to assist SANDAG in collecting, monitoring, and reporting on required contract compliance utilization information for SANDAG subcontractors, including small and Disadvantaged Business Enterprise (DBE) firms.

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Ensuring that the replacement CMS can provide an audit trail for review.	4.9	Implemented	1/2/2024		Senior Director of Organization Effectiveness & Director of Contracts and Procurement Services	Testing confirmed corrections meet requirements. <i>Due to inefficiencies, plans are underway to return to CMS. OIPA will revisit this recommendation after the transition back to CMS.</i>
For continuity and efficiency, at least more than 1 employee but preferably more than 3 should have an in-depth knowledge, training, and skill in the replacement CMS and should be able to provide reports to auditors and/or other authorized recipients.	4.10	Pending	12/31/2024		Director of Contracts and Procurement Services	
If recommendation 1 is chosen not to be accepted and SANDAG continues to use the current CMS, auditors recommend applying recommendations 2-10 to the current CMS.	4.11	Pending	TBD		Director of Contracts and Procurement Services	Recommendation 4.1 was accepted; however, <i>due to inefficiencies, plans are underway to return to CMS. OIPA will revisit this recommendation after the transition back to CMS.</i>
Creating a formal SOP and provide training on completing a Record of Negotiation (RON) to both project managers and contract analysts.	5.1	Pending	12/31/2024		Director of Contracts and Procurement Services	
Providing negotiation training and/or guidelines to project managers and contract analysts to include reasons/intent of negotiations, best practices, and risks of not negotiating and/or not following best practices.	5.2	Pending	12/31/2025		Director of Contracts and Procurement Services	
Providing training to staff on sole source laws, rules, regulations, and processes.	6.1	Pending	12/31/2025		Director of Contracts and Procurement Services	
Creating formal administrative procedures on sole source processes.	6.2	Pending	12/31/2024		Director of Contracts and Procurement Services	

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Updating the current sole source justification template to include procurement request details such as contract/task order/amendment number, project manager name, vendor name, etc.	6.3	Pending	12/31/2024		Director of Contracts and Procurement Services	
Reorganizing contract and sole source records in one centralized location.	6.4	Pending	12/31/2024		Director of Contracts and Procurement Services	
Updating CMS to have accurate information.	6.5	Implemented	Summer 2023	1/2/2024	Director of Contracts and Procurement Services	Documents confirmed corrections meet requirements. <i>Due to inefficiencies, plans are underway to return to CMS. OIPA will revisit this recommendation after the transition back to CMS.</i>
Ensuring required documents are saved as separate files and labeled accordingly, such as saving a sole source justification form as such.	6.6	Implemented	May 2023		Director of Contracts and Procurement Services	Testing confirmed corrections meet requirements. <i>Due to inefficiencies, plans are underway to return to CMS. OIPA will revisit this recommendation after the transition back to CMS.</i>
Revising the on-call process to ensure fairness and equity throughout the entire process.	7.1	Pending	12/31/2024		Senior Director of Organization Effectiveness & Director of Contracts and Procurement Services	
Providing training on procurement planning to include the steps and timeline needed to prepare for various sized and timed projects to contract analysts, project managers and any approving staff.	7.2	Pending	12/31/2025		Director of Contracts and Procurement Services	
Ensuring sufficient procurement planning efforts are being made to avoid sole sources and amendments	7.3	Pending	12/31/2024		Director of Contracts and Procurement Services	

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Reviewing the sole source policies, processes, and procedures to ensure a clear understanding of allowed sole sources, limitations around sole sources, and the review and approval requirements of sole sources	7.4	Pending	12/31/2024		Director of Contracts and Procurement Services	
Creating sole source SOPs for all levels of the approval process.	7.5	Pending	12/31/2024		Director of Contracts and Procurement Services	
Creating and providing training related to sole sources to include examples of allowable/approvable situations when a sole source is or can be justified and an explanation and examples of when poor planning does not suffice in requesting a sole source procurement.	7.6	Pending	12/31/2025		Director of Contracts and Procurement Services	
Ensuring that on-call procurements are being appropriately advertised to reach sufficient, qualified and a variety of contractors and subcontractors, including outreach efforts using public platforms and attendance of outreach events to attract new and disadvantaged contractors and subcontractors.	7.7	Pending	12/31/2024		Director of Contracts and Procurement Services	
Revising the Procurement Manual to avoid conflicting language, particularly with the contract management of A&E contracts and allowance of sole sources.	7.8	Pending	12/31/2024		Director of Contracts and Procurement Services	

## Contracts and Procurement Operational and System Control Audit Report (Part II)

Publish Date: May 2023

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Create a Standard Operating Procedure (SOP) and update procurement solicitation forms for Evaluation Panel participants to follow that explains their responsibility to complete score sheets and to provide notes that justify their scores.	1.1	Pending	12/31/2024	6/30/2025	Director of Contracts and Procurement Services	Management needs to extend the implementation date to 6/30/2025 due to additional work related to ERP/CMS.
Management shall review and update the procedure guides and training provided to Contracts Analysts related to facilitating the solicitation process. This effort will fall under the Procurement Program Optimization Initiative. Timing for completion is currently unknown.	1.2	Pending	12/31/2024	6/30/2025	Director of Contracts and Procurement Services	Management needs to extend the implementation date to 6/30/2025 due to additional work related to ERP/CMS.
Update the procurement board policies to clearly explain competition requirements for contracts and task orders. The policies should also clearly explain the options for not competing and the procedures and approvals that should be followed in those instances.	1.3	Pending	TBD		CEO	
Ensure that SOPs around procurements clearly explain the need and requirements for competition as well as the allowed exceptions and requirements for them.	1.4	Pending	12/31/2024	6/30/2025	Director of Contracts and Procurement Services	Management needs to extend the implementation date to 6/30/2025 due to additional work related to ERP/CMS.
Update the procurement board policies to clearly limit the amendment amount(s) allowed without both the Executive Director's signature and to specify when Board approval is required to approve amendments.	1.5	Pending	TBD		CEO	

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Update the procurement board policies to clearly state that the amendment amount requiring board approval is cumulative of all amendments. This should also consider all other work on the same project issued under previous task orders or contracts, unless a new full and open competition has occurred for the services. This should clearly explain that exceptions to this must be analyzed by the Contracts department to ensure bid splitting is not occurring and that sufficient competition has occurred for the amounts awarded thus far.	1.6	Pending	TBD		CEO	
Update the Procurement Manual to reflect the changes in Recommendations 1.1 and 1.2 of this finding.	1.7	Pending	12/31/2024		Director of Contracts and Procurement Services	
Create an SOP for contracts staff that clearly explains their role in reviewing amendments and procurement history to ensure bid splitting and avoidance of competition is not repeatedly occurring.	1.8	Pending	12/31/2024		Director of Contracts and Procurement Services	
Update the procurement board policies to address retroactive procurement transactions and to restrict/limit them. If allowing them, clearly limit the allowed circumstances to emergencies. The restrictions should define and specify that “poor planning” is not allowed and include examples such as departments being unaware of expiring contracts/task orders and being unaware of procurement processing timelines and requirements.	1.9	Pending	TBD		CEO	
Create a tracking system/method for expiring contracts/task orders to ensure customer department awareness of planning needs for current and future procurements.	1.10	Implemented	May 2023		Director of Contracts and Procurement Services	Testing confirmed corrections meet requirements. <i>Due to inefficiencies, plans are underway to return to CMS. OIPA will revisit this recommendation after the transition back to CMS.</i>

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Update the Procurement Manual to follow the recommendations in Recommendation 1, as well as to limit or restrict the approval of retroactive requests if negligence occurred on the department's behalf due to not tracking their expiring contracts and/or task orders.	1.11	Pending	12/31/2024		Director of Contracts and Procurement Services	
Create a SOP for both departments and contracts staff to explain the roles, responsibilities, requirements, forms, approvals needed, and processing retroactive procurement requests.	1.12	Pending	12/31/2024		Director of Contracts and Procurement Services	
Contracts department to provide training on appropriate planning efforts and expectations for project managers and customer departments. This should include tracking of contracts, monitoring of expiration dates and procurement timelines for any next steps or changes to projects.	1.13	Pending	12/31/2025		Director of Contracts and Procurement Services	
Update the Procurement Manual to clearly explain the required forms for procurement transactions. This should include the options and how to submit their requests with the information and forms needed.	1.14	Pending	12/31/2024		Director of Contracts and Procurement Services	
Create SOPs for staff on requiring forms from departments or project managers and how to review them for completeness and compliance. Procedures should include examples of properly completed forms/requests as well as improper ones.	1.15	Pending	12/31/2025		Director of Contracts and Procurement Services	
Update the Board Policy No. 017, the Employee Handbook and Procurement Manual to create more internal controls around approval and signature of procurement transactions by including the OGC in all transactions to ensure risks are mitigated.	1.16	Pending	TBD		CEO & Senior Director of Organization Effectiveness	
Require staff to provide detailed reasons/justifications for amendment requests.	1.17	Pending	12/31/2024		Director of Contracts and Procurement Services	



Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Create SOPs and provide training to project managers and contract analysts to ensure amendments are reduced in frequency by ensuring that sufficient planning is being done and review of amendment requests are analyzed by contracts staff	1.18	Pending	12/31/2024		Director of Contracts and Procurement Services	
Create SOPs and provide training for contracts staff to address proper document storing and recording procurement transactions.	1.19	Pending	12/31/2025		Director of Contracts and Procurement Services	
Create SOPs for QA/QC efforts to ensure document storing and procurement transactions are properly recorded.	1.20	Pending	12/31/2025		Director of Contracts and Procurement Services	
Update contract templates to define the various dates specified in the contract (effective date, period of performance, and ordering period).	1.21	Implemented	May 2023		Director of Contracts and Procurement Services	Documents confirmed corrections meet requirements.
Update contract templates to ensure consistency when referring to dates and clarify when each date applies.	1.22	Implemented	May 2023		Director of Contracts and Procurement Services	Documents confirmed corrections meet requirements.
Update contract templates to ensure they explicitly define if task order terms are allowed to exceed the contract expiration date.	1.23	Implemented	May 2023		Director of Contracts and Procurement Services	Documents confirmed corrections meet requirements.

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Create clear policies and Standard Operating Procedures (SOP) to ensure competition is open and full as frequently as required by applicable laws, rules and regulations.	2.1	Pending	12/31/2024		Director of Contracts and Procurement Services	
Create clear policies and SOPs to ensure sole sources are limited and are thoroughly being reviewed and analyzed to ensure potential risks are mitigated.	2.2	Pending	12/31/2024		Director of Contracts and Procurement Services	
Create clear policies, SOPs, and provide training for project managers and contract analysts to ensure amendments are reduced in frequency. These should ensure that sufficient planning is being done and reviews of amendment requests are analyzed thoroughly.	2.3	Pending	12/31/2024		Director of Contracts and Procurement Services	
Require detailed/itemized invoices and progress reports or a detailed summary of work performed for a payment to be processed.	3.1	Pending	9/30/2024			
Update Request for Payment Form to explicitly require invoices to be attached.	3.2	Implemented	9/30/2024			Testing confirmed corrections meet requirements.
Create formal procedure and training for invoice payment to include instructions/methods for verifying invoiced work is included in the contract/task order.	3.3	Pending	9/30/2024			

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Update contract templates to require detailed/itemized invoices as well as progress reports or detailed summaries of work performed to be included with invoice.	3.4	Implemented	9/30/2024			Documents confirmed corrections meet requirements.
Create a tracking and filing system to ensure that all received and paid invoices are recorded and filed properly.	3.5	Implemented	9/30/2024		Director of Accounting and Finance	Testing confirmed corrections meet requirements.
Create a SOP that provides instructions on entering and processing invoices to ensure all information is entered correctly into OneSolution and/or any future financial payment system.	3.6	Pending	9/30/2024	11/30/2024	Director of Accounting and Finance	Per management, a guide to entering invoices is available to provide instructions to users. 5 other guides are available on SANDAG Service Central related to invoice entry. A training is also planned for September 2024.
Investigate how many invoices were not captured by OneSolution and determine if financial reports were inaccurate because of any uncaptured invoices.	3.7	Dropped	N/A		Director of Accounting and Finance	OIPA follow-up determined invoices were captured by OneSolution, thus rendering the recommendation no longer necessary.
Create SOPs that clearly identify both the Contracts department's and Finance department's role and responsibilities for encumbering, as well as step by step instructions for each department. These should include of timelines of when steps should occur.	4.1	Implemented	12/31/2024		Senior Director of Organization Effectiveness & Director of Accounting and Finance	Documents confirmed corrections meet requirements.
Provide regular training to each department on their assigned roles, responsibilities, and procedures	4.2	Implemented	12/31/2024		Senior Director of Organization Effectiveness & Director of Accounting and Finance	Documents confirmed corrections meet requirements.

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Create a streamlined process where both departments are communicating regularly on updates or changes to the encumbrance process and ensuring that their procedures align.	4.3	Implemented	Summer 2023		Director of Accounting and Finance	Testing confirmed corrections meet requirements.
Create a process and tracking system/method, inclusive of both the Contracts and Finance departments, for internal controls to ensure all encumbrances are processed upon execution of a contract, task order or amendment.	4.4	Implemented	Summer 2023		Director of Accounting and Finance	Testing confirmed corrections meet requirements.
Update Board Policy No. 017 to clearly restrict bid splitting.	5.1	Pending	TBD		CEO	
Update Board Policy No. 017 to limit the Executive Director's authority on approving agreements to only allow emergencies and/or urgent need procurements. Both "emergencies" and "urgent need" should be clearly defined and in accordance with applicable laws.	5.2	Pending	TBD		CEO	
Update the Delegation of Authority by Executive Director Policy to align with the recommended changes to Board Policy No. 017 and current Board Policy No. 041 by creating more internal controls to include clearly limited parameters around contract amendments and task orders by including the OGC and/or Finance department(s) in all transactions to ensure risks are mitigated.	5.3	Pending	TBD		Senior Director of Organization Effectiveness	
Update the Procurement Manual to restrict and/or clearly limit procurement transactions and actions that conflict with proper internal controls, to include the examples referenced as observations in this finding.	5.4	Pending	12/31/2024		Director of Contracts and Procurement Services	

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Update the procurement board policies to address retroactive procurement transactions and to restrict/limit them. If allowing them, clearly limit the allowed circumstances to emergencies. The restrictions should clearly define “poor planning”, specify that it is not allowed, and should include examples such as departments being unaware of expiring contracts/task orders, departments being unaware of procurement processing timelines and requirements and department lack of succession planning when loss of staff occurs.	6.1	Pending	TBD		CEO	
Create a tracking system/method for expiring contracts/task orders to ensure awareness of planning needs for current and future procurements.	6.2	Implemented	Summer 2023		Director of Contracts and Procurement Services	Testing confirmed functionality meets requirements. <i>Due to inefficiencies, plans are underway to return to CMS. OIPA will revisit this recommendation after the transition back to CMS.</i>
Update the Procurement Manual to follow Recommendation 1 of this finding.	6.3	Pending	12/31/2024		Director of Contracts and Procurement Services	
Create a SOP for staff to explain the roles, responsibilities, requirements, forms, and approvals needed for all procurement transactions including retroactive procurement requests.	6.4	Pending	12/31/2025		Director of Contracts and Procurement Services	
Provide training on procurement planning to include appropriate efforts and expectations for project managers to include tracking of contracts, monitoring of expiration dates, and procurement timelines to follow for any next steps or changes to projects.	6.5	Pending	12/31/2025		Director of Contracts and Procurement Services	
Provide training to departments and project managers to ensure understanding of on-call contracts and processes to award task orders.	6.6	Pending	12/31/2025		Director of Contracts and Procurement Services	

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Require performance evaluations of consultants upon completion or termination of a contract and/or task order.	7.1	Implemented	Ongoing		Director of Contracts and Procurement Services	Testing confirmed corrections meet requirements.
Create SOPs for project management roles that clearly explain responsibilities to ensure projects are being completed on time and in an efficient manner. This should include assessing and documenting the consultant's completion of deliverables, milestones, and whether they meet the contract requirements and agency needs or not.	7.2	Pending	12/31/2024		Director of Contracts and Procurement Services	
Create policies and SOPs that clearly explain allowed justification for amendments. These procedures should include examples of both allowable and non-allowable justifications.	7.3	Pending	12/31/2024		Director of Contracts and Procurement Services	
Require that amendment requests include thorough justification details. Also require that contract analysts ensure they are reviewing and analyzing whether justifications are allowable.	7.4	Pending	12/31/2024		Director of Contracts and Procurement Services	
Create a SOP for contract analysts that clearly explains how to review amendment requests and procurement history to ensure amendments are justified, to identify excessive amendments, to identify potential bid splitting, avoidance of competition, non-performing consultants, and conflicts of interest.	7.5	Pending	12/31/2024		Director of Contracts and Procurement Services	
Conduct an analysis to determine if additional staff is needed to perform common legal and/or HR services, which could ensure a cost saving to the agency.	8.1	Dropped	N/A		Senior Director of Organization Effectiveness	Upon review, the IPA found recommendation to be outside of the audit scope.

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Provide training to ensure OGC staff is qualified to meet SANDAG's needs and the requirements of their classification specification. Training should include environmental, construction, employment, public finance, contracts, intergovernmental, binational relations, and toll operations.	8.2	<b>Dropped</b>	N/A		Office of General Counsel	Upon review, the IPA found recommendation to be outside of the audit scope.
Consider reducing in-house legal staff down to one or two attorneys and move to outsourcing only. This would further support independence, from a legal perspective, around the Board, Management and OIPA matters.	8.3	<b>Dropped</b>	N/A		Office of General Counsel	Upon review, the IPA found recommendation to be outside of the audit scope.
Provide training to ensure HR staff is qualified to meet SANDAG's needs and the requirements of their classification specification. Training should include staff recruitment, strategic planning and organizational assessment, classification and compensation, and employee training.	8.4	<b>Dropped</b>	N/A		Senior Director of Organization Effectiveness	Upon review, the IPA found recommendation to be outside of the audit scope.
Recruit and hire staff that is qualified based on the applicable classification specification and is able to meet the needs of SANDAG.	8.5	<b>Dropped</b>	N/A		Senior Director of Organization Effectiveness	Upon review, the IPA found recommendation to be outside of the audit scope.
Provide leadership training to address analyzing internal capacity/experience versus external expertise to mitigate overspending on consultants, identifying training needs for staff based on continuous agency needs, and improving efficiency around project performance and avoiding potential delays.	8.6	<b>Dropped</b>	N/A		Senior Director of Organization Effectiveness	Upon review, the IPA found recommendation to be outside of the audit scope.

## Operational Process and System Control Audit for Board Member and Employee Travel and Other Business-Related Reimbursements

Publish Date: December 2023

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Create two separate documents to replace the current SANDAG travel form. The Travel Request to approve travel should be documented separately from the Travel Expenses Report to reimburse travel.	1.1	Started	3/31/2024	12/31/2024	Senior Director of Organization Effectiveness	Per Management, the Interim CEO provided verbal approval for this process change in early 2024 and it has been used, as needed, in recent months. This change will be formally incorporated into the upcoming changes to the Travel Guidelines.
Provide training to executive assistants and other staff who process or submit Travel Requests and/or Travel Expenses Reports to ensure they are familiar with the requirements for approval and/or the requirements for reimbursement and supporting documentation.	1.2	Started	3/31/2024	12/31/2024	Senior Director of Organization Effectiveness & Director of Accounting and Finance	Per Management, completion of this is dependent on changes to the Guidelines for Employee Business Travel being approved.
Update the travel procedures to require that written approvals are obtained via a text message or email in instances when a signature cannot be acquired in a timely manner, until the travel reimbursement process is fully automated. This record should be included with the request to document the exception.	1.3	Started	3/31/2024	12/31/2024	Senior Director of Organization Effectiveness	Per Management, the Interim CEO provided verbal approval for this process change in early 2024 and it has been used, as needed, in recent months. This change will be formally incorporated into the Travel Guidelines.
Create a standardized form or forms for Professional Education, Certification and Licensing, and Tuition Assistance requests that captures all the required written preapprovals, explanations of benefits to the employee and SANDAG, costs associated with the class, seminar, workshop, etc.	2.1	Implemented	6/30/2024		Senior Director of Organization Effectiveness & Director of HR	Documents confirmed corrections meet requirements.



Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Update procedures to require requests for professional development reimbursements are reviewed for all required documentation, including valid explanation, and approvals. Incomplete requests should be rejected until all proper documentation can be supplied.	2.2	Implemented	6/30/2024		Senior Director of Organization Effectiveness & Director of HR	Documents confirmed corrections meet requirements.
In conjunction with the Action Items noted above, Management shall add and/or update information currently available on the Staff Intranet site (SANDAG Central) regarding expectations and procedures for requesting preapproval and subsequent reimbursement of Professional Education, Certification and Licensing, and Tuition Assistance requests.	2.3	Implemented	6/30/2024		Senior Director of Organization Effectiveness & Director of HR	Documents confirmed corrections meet requirements.

## Continuous Auditing Operations Process and System Control Review – Purchase Cards

Publish Date: October 2023

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Ensure all P-Card holders, all P-Card approving officials and Finance staff are thoroughly trained on the P-Card Policy, to include awareness of requirements for weekend and holiday transactions, clarity on allowable and unallowable transactions and required documentation and support. Training should also include examples of each.	1.1	Implemented	12/31/2023	1/16/2024	Senior Director of Organization Effectiveness	Documents confirmed corrections meet requirements.
Review all professional memberships and monthly/annual subscription fees paid for by purchase cards to ensure none are set to automatically renew.	1.2	Partly Implemented	12/31/2023		Senior Director of Organization Effectiveness & CFO	Issue with OIPA recurring software charge in 2024. Five months of statements were initially reviewed to locate possible recurring charges, but more work is needed to ensure all automatic annual renewals have been identified.
Create an easily accessible Frequently Asked Questions (FAQ) document to address the most common errors or questions received by Finance.	1.3	Implemented	12/31/2023		Senior Director of Organization Effectiveness	Documents confirmed corrections meet requirements.
Update the Micro-Purchase Policy and/or Purchase Card Policy to ensure they align in regard to required purchase orders for online or hosted software services.	1.4	Implemented	12/31/2023		Senior Director of Organization Effectiveness & Director of Contracts and Procurement Services	Documents confirmed corrections meet requirements.

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
If federal and state funds are used for Hospitality and Events, staff should ensure that the funding source used for payment(s) are in compliance with all relevant funding laws, rules, and regulations.	2.1	Started	3/31/2024	9/30/2024	Senior Director of Organization Effectiveness & CFO	Per Management, edits to the Hospitality and Events Policy have been prepared and reviewed by the Office of General Counsel, the CFO, and Director of Accounting and Finance. Adoption of the policy changes are pending discussion and review by the new CEO.
Provide training to cardholders, project managers, finance staff, and any other relevant staff on the Hospitality and Events Policy.	2.2	Started	3/31/2024	11/30/2024	Senior Director of Organization Effectiveness & CFO	Per Management, completion of this action is dependent on the policy changes being approved. Training will be provided to employees with P-card Program responsibilities within 60 days of the policy implementation
When staff is uncertain of allowability, staff should perform due diligence by verifying allowability and/or seeking approval of fund use prior to submitting reimbursement claims.	2.3	Started	3/31/2024	9/30/2024	CFO	Per Management, the Federal rules and regulations related to the purchase of food items have been add to the working draft of the Hospitality and Events policy and are pending review and approval by the CEO.

## Operational Process and System Control Review of Vendors

Publish Date: October 2021

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Review all vendors and classify them as active or inactive, and label them as such.	2.1	Implemented	12/31/2021	1/2/2024	Director of Accounting and Finance	Documents confirmed corrections meet requirements.
Replace or update the current vendor management software to prevent creating duplicate vendors.	2.2	Implemented	12/31/2021	1/2/2024	Director of Accounting and Finance	Testing confirmed functionality meets requirements.
Standardize naming conventions to avoid near duplicate vendors, such as "U S Postal Service" and "United States Postal Service".	2.3	Implemented	12/31/2021	1/2/2024	Director of Accounting and Finance	Testing confirmed functionality meets requirements.
Add the missing information such as the Taxpayer Identification Numbers and addresses for existing and active vendors.	2.4	Implemented	12/31/2021	1/2/2024	Director of Accounting and Finance	Testing confirmed functionality meets requirements.
Reconcile the vendor list to ensure that incomplete, inaccurate, or duplicated vendors are removed from the vendor list.	2.5	Implemented	12/31/2021	1/2/2024	Director of Accounting and Finance	Testing confirmed functionality meets requirements.

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Consider hiring additional staff to ensure ease of staff multiple job duties.	2.6	Implemented	12/31/2021	10/1/2021	Director of Accounting and Finance	Documents confirmed corrections meet requirements.
Ensure that only entities conforming to SANDAG's definition of a vendor are included in the vendor list.	2.7	Implemented	12/31/2021	1/2/2024	Director of Accounting and Finance	Testing confirmed functionality meets requirements.
Provide training to staff for managing the database to ensure consistency in entering vendor information.	2.8	Implemented	12/31/2021	1/2/2024	Director of Accounting and Finance	Testing confirmed functionality meets requirements.
OIPA recommends SANDAG either update or replace the current accounting software so that the totals can be fully displayed in the vendors AP ledger.	3.1	Implemented	By ERP implementation date	1/2/2024	Director of Accounting and Finance	Testing confirmed functionality meets requirements.

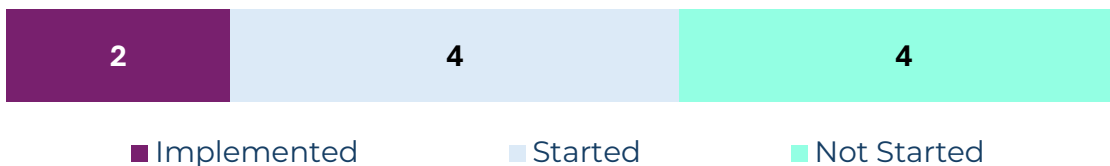
## Investigations in this Report

### Office of the Independent Performance Auditor's Investigation Report on SANDAG's State Route 125 Toll Operations

The objectives of the investigation were to determine if SANDAG's SR 125 financial accounting can be relied upon, if SANDAG rectified the publicly reported errors with customer accounts shared with the Board of Directors in December 2023, and if there were other significant matters noted during the investigation.

## Summary of Investigation Recommendations

The Investigation Report on SANDAG's State Route 125 Toll Operations produced a total of **10 recommendations**. Of these, **2 were implemented** within this reporting period, **4 were started**, and **4 were not started**.



## Investigation Report on SANDAG's State Route 125 Toll Operations

Publish Date: March 2024

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
An independent assessment of the Finance department's policies, procedures, and practice to ensure adequate internal controls including proper review and supervision over all of SANDAG's financial operations.	1	Started	Included in approved OIPA annual audit work plan 7/11/2024	RFP being issued October 2024	OIPA	Included in approved OIPA annual audit work plan 7/11/2024.
SANDAG reconciles the data from the KAPSCH system to ETAN's BOS daily to ensure accurate transmission and posting of customer account data to ETAN's Fastlane.	2	Not Started	April 2024		Toll Operations & Finance	Per Management, multiple efforts are underway to reconcile the roadside, BOS, and accounting systems. An effort is underway to reconcile the Kapsch to ETAN. Staff assessment of the data available from the KAPSCH system and the BOS for daily reconciliation took longer to pull than anticipated. The available data is in two different formats and must be compared for reconciliation. This process will be documented in a SOP.
The Board and the public should be provided with an explanation as to why an RFP process was not initiated a year sooner, and why the Board was instead presented with a request to authorize a sole source contract award on January 12, 2024.	3	Implemented	4/12/2024	4/26/2024	CEO	The Interim CEO reported out to the Board of Directors at the April 26, 2024 meeting.
The Board should consider a policy that requires a Board report when a multimillion-dollar project is failing to meet its deadlines and deliverables. Such a policy should clearly state under what conditions a report is required, as well as when a report will no longer be required.	4	Not Started	5/24/2024	Revised date not provided	Office of General Counsel	Per Management, amendments to Board Policy addressing this action item are still in development.

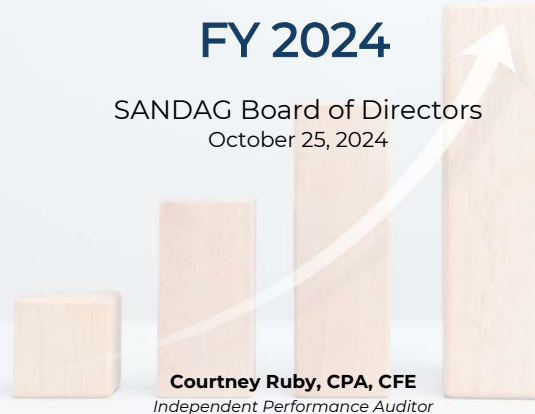
Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
The Board review SANDAG's sole source awards semi-annually to ensure adherence with public procurement laws and practices.	5	Implemented	7/26/2024	N/A		Documents confirmed corrections meet requirements. Semi-Annual Report on Sole Source Contract Awards provided to the Board of Directors on July 26, 2024.
The Board request the Audit Committee and the IPA to include SANDAG's sole source procurement process be included in the IPA's annual work plan for FY 24-25.	6	Started	Included in approved OIPA annual audit work plan 7/11/2024.	Audit to be completed FY 24/25	OIPA	Included in approved OIPA annual audit work plan 7/11/2024.
We recommend SANDAG immediately implements daily monitoring to ensure all systems are operating and communicating with each other correctly.	7	Not Started	April 2024	10/31/2024	Toll Operations & Finance	Per Management, SANDAG is refining the procedures of how to capture the information from each department, Toll Operations Center, Customer Service Center, Facilities and IT department to ensure all systems are operating.
We recommend SANDAG evaluates with Deloitte and A-to-Be if the DMV Hold Functionality can be implemented sooner.	8	Started	April 2024	Dependent on BOS implementation phases	Toll Operations & Finance	Management has evaluated moving the DMV Hold functionality from phase 4 to phase 1. SANDAG should evaluate if the DMV Hold functionality can be moved either to phase 2 or phase 3 of the project to expedite revenue collection from this process.
SANDAG implement a daily reconciliation process between the KAPSCH roadway system and the ETAN Fastlane system be put in place immediately to verify the accuracy of customer charges going forward. This should be coordinated with toll operations and Finance.	9	Not Started	April 2024	12/31/2024	Toll Operations & Finance	Per Management, multiple efforts are underway to reconcile the roadside, BOS, and accounting systems. An effort is underway to reconcile the Kapsch to ETAN. Staff assessment of the data available from the KAPSCH system and the BOS for daily reconciliation took longer to pull than anticipated. The available data is in two different formats and must be compared for reconciliation. This process will be documented in a SOP.



Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
SANDAG establish a process to address customer concerns related to past account balances that have not been verified or that are not able to be verified. If additional discrepancies in customer account balance are identified, these accounts should be included in this process.	10	Started	April 2024	Dependent on BOS go-live	Toll Operations & Finance	OIPA will review progress during investigations quarterly recommendation follow-up process.

# Audit and Investigation Recommendation and Corrective Action Plan Status Report FY 2024

SANDAG Board of Directors  
October 25, 2024



## Background

- **Board Policy No. 039, section 3.1.9** requires the Audit Committee to “monitor the implementation of corrective action identified in audit and investigative reports and inform the Board when corrective action is insufficient or untimely.”
- **OIPA’s authorized annual Audit Work Plan Goal #4** – Development and Monitoring of Corrective Action Plans

“Ensure OIPA’s recommendations are clear, timely, and responsive, and implemented by management expeditiously.”

## Process

- This report includes updates on the status of audit and investigation recommendations that were **scheduled for implementation on or before August 30, 2024.**
  - *The exception to this are any corrective actions that were completed early and previously reported to the Audit Committee or Board as "Implemented"*
- The OIPA verifies all information regarding implementation status provided by SANDAG departments for OIPA audits and investigations by **reviewing documentation and/or conducting testing.**

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## Implementation Status Definitions

- **Pending** – The recommendation is not scheduled to be implemented yet per the responsible party's initial response on the Corrective Action Plan provided to OIPA.
- **Not started** – The responsible party temporarily postponed implementing the recommendation or did not demonstrate sufficient progress toward implementing the recommendation.
- **Started** – The responsible party began implementing the recommendation, but considerable work remains.
- **Partly Implemented** – The responsible party satisfied some elements of the recommendation, but additional work and testing remains.
- **Implemented** – The responsible party provided documentation and OIPA verified the satisfactory implementation of the recommendation.
- **Dropped** – The IPA recommends eliminating the recommendation since a change in circumstances rendered it unnecessary, or recommendation was determined to be outside of audit scope.

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## Implementation Date Definitions

- **Planned Implementation Date** – Original date for implementation provided by responsible party when audit/investigation issued.
- **Revised Date of Implementation Date** – Responsible party revised the original date for implementation.

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## OIPA Audit Recommendations

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## OIPA Audits in this Report

- Contracts and Procurement Operational and System Control Audit Report (Part I)  
*Released October 2022*
- Contracts and Procurement Operational and System Control Audit Report (Part II)  
*Released May 2023*
- Operational Process and System Control Audit for Board Member and Employee Travel and Other Business-Related Reimbursements  
*Released December 2023*
- Continuous Auditing Operations Process and System Control Review – Purchase Cards  
*Released October 2023*
- Operational Process and System Control Review of Vendors  
*Released October 2021*

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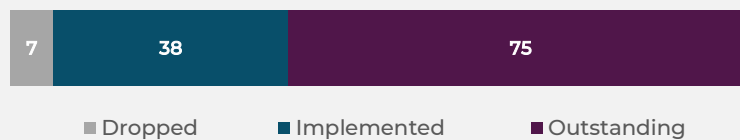
## Important Updates on ERP and CMS

- During confirmation of corrective actions for the Contracts and Procurement Operational and System Control Audits (Parts I and II), Management informed the OIPA that the **Enterprise Resource Planning (ERP) system is unable to fully support certain complex functions** required by the agency's procurement program.
- Management has decided that the prior **Contract Management System (CMS) and the ERP will be used together** to support the agency's procurement functions.
- Management informed the OIPA that the **CMS will manage solicitation, procurement, and contract award activities.**
- The contracts module within the **ERP will continue to be used as the system of record for budgeting and accounting activities related to awarded contracts**, despite it being less efficient for procurement tasks compared to the previous CMS.
- Management intends to develop a **work plan to address system deficiencies and transition back** to using the CMS for procurement functions. This plan will include an assessment of how to integrate CMS with the ERP for financial control, with key milestones anticipated to be completed by **June 30, 2025.**

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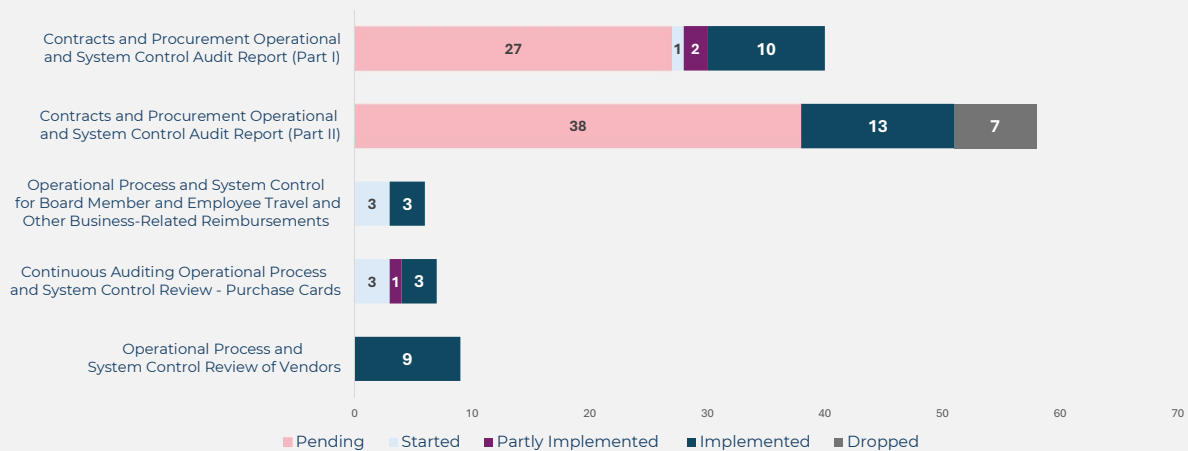
## Summary of OIPA Audit Recommendations

The 5 OIPA audits detailed in this report contained **120 total recommendations**. Of those, **38 were implemented** and **7 were dropped** during this reporting period. **75 recommendations are outstanding** – meaning they are started, partly implemented, or pending and will be tracked into Fiscal Year 2025.



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## Summary of OIPA Audit Recommendations



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## Recommendations Requiring Attention

During our testing and verification period, the OIPA identified **9 total audit recommendations** that are considered overdue.

Management notified OIPA of **6 recommendations** with **overdue implementation dates** which require additional time to complete.

Testing also revealed that **3 recommendations** which had previously been reported as implemented were instead partly implemented and **require further corrective action**.

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### Operational Process and System Control Audit for Board Member and Employee Travel and Other Business-Related Reimbursements

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Create two separate documents to replace the current SANDAG travel form. The Travel Request to approve travel should be documented separately from the Travel Expenses Report to reimburse travel.	1.1	Started	3/31/2024	12/31/2024	Senior Director of Organization Effectiveness	Per Management, the Interim CEO provided verbal approval for this process change in early 2024 and it has been used, as needed, in recent months. This change will be formally incorporated into the upcoming changes to the Travel Guidelines.
Provide training to executive assistants and other staff who process or submit Travel Requests and/or Travel Expenses Reports to ensure they are familiar with the requirements for approval and/or the requirements for reimbursement and supporting documentation.	1.2	Started	3/31/2024	12/31/2024	Senior Director of Organization Effectiveness & Director of Accounting and Finance	Per Management, completion of this is dependent on changes to the Guidelines for Employee Business Travel being approved.
Update the travel procedures to require that written approvals are obtained via a text message or email in instances when a signature cannot be acquired in a timely manner, until the travel reimbursement process is fully automated. This record should be included with the request to document the exception.	1.3	Started	3/31/2024	12/31/2024	Senior Director of Organization Effectiveness	Per Management, the Interim CEO provided verbal approval for this process change in early 2024 and it has been used, as needed, in recent months. This change will be formally incorporated into the Travel Guidelines.

## Continuous Auditing Operational Process and System Control Review - Purchase Cards

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Review all professional memberships and monthly/annual subscription fees paid for by purchase cards to ensure none are set to automatically renew.	1.2	Partly Implemented	12/31/2023	TBD	Senior Director of Organization Effectiveness & CFO	Issue with OIPA recurring software charge in 2024. Five months of statements were initially reviewed to locate possible recurring charges, but more work is needed to ensure all automatic annual renewals are identified.
If federal and state funds are used for Hospitality and Events, staff should ensure that the funding source used for payment(s) are in compliance with all relevant funding laws, rules, and regulations.	2.1	Started	3/31/2024	9/30/2024	Senior Director of Organization Effectiveness & CFO	Per Management, edits to the Hospitality and Events Policy have been prepared and reviewed by the Office of General Counsel, the CFO, and Director of Accounting and Finance. Adoption of the policy changes are pending discussion and review by the new CEO.
Provide training to cardholders, project managers, finance staff, and any other relevant staff on the Hospitality and Events Policy.	2.2	Started	3/31/2024	11/30/2024	Senior Director of Organization Effectiveness & CFO	Per Management, completion of this action is dependent on the policy changes being approved. Training will be provided to employees with P-card Program responsibilities within 60 days of the policy implementation
When staff is uncertain of allowability, staff should perform due diligence by verifying allowability and/or seeking approval of fund use prior to submitting reimbursement claims.	2.3	Started	3/31/2024	9/30/2024	CFO	Per Management, the Federal rules and regulations related to the purchase of food items have been add to the working draft of the Hospitality and Events policy and are pending review and approval by the CEO.

## Contracts and Procurement Operational and System Control Audit Report (Part I)

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
Ensuring staff can query to identify the contractor and subcontractor efficiently and easily within the replacement CMS without going to various other platforms or documents	4.3	Partly Implemented	Summer 2023	TBD	Director of Contracts and Procurement Services	ERP only lists contractors; staff must navigate through CIS to search for approved subcontractors.
Requiring that the listed project manager for a contract is the actual project manager in the replacement CMS.	4.6	Partly Implemented		TBD	Director of Contracts and Procurement Services	ERP requires the Project Manager be listed, but in some instances, this may be the requestor and not the actual project manager.



# Investigation Recommendations

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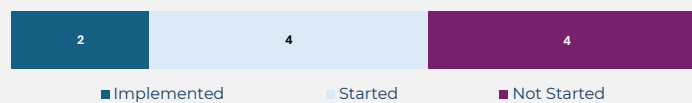
## Investigations in this Report

- Office of the Independent Performance Auditor's Investigation Report on SANDAG's State Route 125 Toll Operations  
*Released March 2024*

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## Summary of Investigation Recommendations

The Investigation Report on SANDAG's State Route 125 Toll Operations produced a total of 10 recommendations. Of these, **2 were implemented** within this reporting period, **4 were started**, and **4 were not started**.



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### Investigation Report on SANDAG's SR 125 Toll Operations Recommendations

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
An independent assessment of the Finance department's policies, procedures, and practice to ensure adequate internal controls including proper review and supervision over all of SANDAG's financial operations.	1	Started	Included in approved OIPA annual audit work plan 7/11/2024	RFP being issued October 2024	OIPA	Included in approved OIPA annual audit work plan 7/11/2024.
SANDAG reconciles the data from the KAPSCH system to ETAN's BOS daily to ensure accurate transmission and posting of customer account data to ETAN's Fastlane.	2	Not Started	April 2024		Toll Operations & Finance	Per Management, multiple efforts are underway to reconcile the roadside, BOS, and accounting systems. An effort is underway to reconcile the Kapsch to ETAN. Staff assessment of the data available from the KAPSCH system and the BOS for daily reconciliation took longer to pull than anticipated. The available data is in two different formats and must be compared for reconciliation. This process will be documented in a SOP.
The Board and the public should be provided with an explanation as to why an RFP process was not initiated a year sooner, and why the Board was instead presented with a request to authorize a sole source contract award on January 12, 2024.	3	Implemented	4/12/2024	4/26/2024	CEO	The Interim CEO reported out to the Board of Directors at the April 26, 2024 meeting.

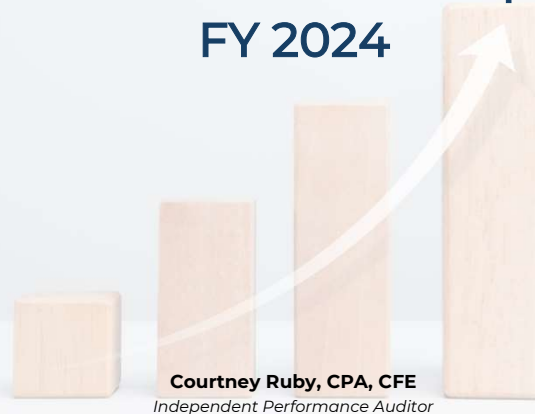
### Investigation Report on SANDAG's SR 125 Toll Operations Recommendations

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
The Board should consider a policy that requires a Board report when a multimillion-dollar project is failing to meet its deadlines and deliverables. Such a policy should clearly state under what conditions a report is required, as well as when a report will no longer be required.	4	Not Started	5/24/2024	Revised date not provided	Office of General Counsel	Per Management, amendments to Board Policy addressing this action item are still in development.
The Board review SANDAG's sole source awards semi-annually to ensure adherence with public procurement laws and practices.	5	Implemented	7/26/2024	N/A		Documents confirmed corrections meet requirements. Semi-Annual Report on Sole Source Contract Awards provided to the Board of Directors on July 26, 2024.
The Board request the Audit Committee and the IPA to include SANDAG's sole source procurement process be included in the IPA's annual work plan for FY 24-25.	6	Started	Included in approved OIPA annual audit work plan 7/11/2024.	Audit to be completed FY 24/25	OIPA	Included in approved OIPA annual audit work plan 7/11/2024.

### Investigation Report on SANDAG's SR 125 Toll Operations Recommendations

Recommendation	Number	Status	Planned Implementation Date	Revised Date of Implementation	Responsible Party	OIPA Comments
We recommend SANDAG immediately implements daily monitoring to ensure all systems are operating and communicating with each other correctly.	7	Not Started	April 2024	10/31/2024	Toll Operations & Finance	Per Management, SANDAG is refining the procedures of how to capture the information from each department, Toll Operations Center, Customer Service Center, Facilities and IT department to ensure all systems are operating.
We recommend SANDAG evaluates with Deloitte and A-to-Be if the DMV Hold Functionality can be implemented sooner.	8	Started	April 2024	Dependent on BOS implementation phases	Toll Operations & Finance	Management has evaluated moving the DMV Hold functionality from phase 4 to phase 1. SANDAG should evaluate if the DMV Hold functionality can be moved either to phase 2 or phase 3 of the project to expedite revenue collection from this process.
SANDAG implement a daily reconciliation process between the KAPSCH roadway system and the ETAN Fastlane system be put in place immediately to verify the accuracy of customer charges going forward. This should be coordinated with toll operations and Finance.	9	Not Started	April 2024	12/31/2024	Toll Operations & Finance	Per Management, multiple efforts are underway to reconcile the roadside, BOS, and accounting systems. An effort is underway to reconcile the Kapsch to ETAN. Staff assessment of the data available from the KAPSCH system and the BOS for daily reconciliation took longer to pull than anticipated. The available data is in two different formats and must be compared for reconciliation. This process will be documented in a SOP.

## External Audit Recommendations and Corrective Action Plan Status Report FY 2024



### Process

- This report includes updates on the status of external audit recommendations that were **scheduled for implementation on or before August 30, 2024.**
- As part of the OIPA's authorized annual audit work plan, the OIPA requests SANDAG Management provide annual updates on the corrective actions outlined in their response to each external audit. No additional testing or verification is performed by OIPA staff in relation to external audit recommendations.

## External Audits in this Report

- Fiscal Year 2023 Annual Audited Comprehensive Financial Report  
*Released June 2024*
- 2024 TransNet Triennial Performance Audit  
*Released May 2024*
- 2021 TransNet Triennial Performance Audit  
*Released March 2021*
- 2018 TransNet Triennial Performance Audit  
*Released June 2018*
- Fiscal Year 2023 ITOC TransNet Extension Activities Report  
*Released July 2024*

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## Summary of External Audit Recommendations

At the end of Fiscal Year 2023, there were **51 outstanding external audit recommendations** that carried over into 2024.

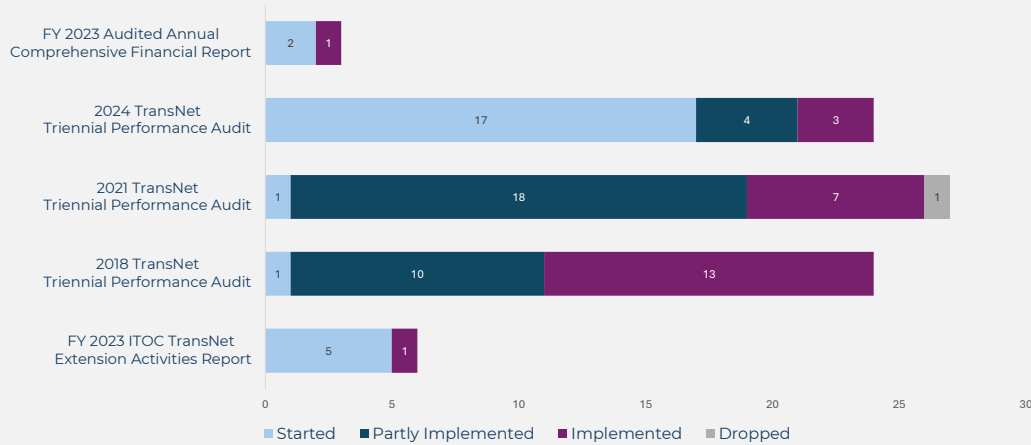
In Fiscal Year 2024, three (3) additional external audits were completed, adding a total of **33 new recommendations for tracking**.

Of these 84 recommendations, **25 were implemented** during Fiscal Year 2024 and **1 was dropped**, leaving **58 remaining** to be tracked into Fiscal Year 2025.



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## Summary of External Audit Recommendations



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## Looking Ahead for OIPA Audit & Investigation Recommendations

- The OIPA will revisit **all recommendations** affected by the **ERP/CMS system changes** after the transition occurs, or during the next annual audit and investigation recommendation and corrective action status update process, whichever occurs first.
- The OIPA will meet with SANDAG Management in the coming weeks to solicit feedback on the audit recommendation and corrective action plan follow-up process and **collaborate on process improvements** for the current fiscal year.
- Updates on implementation status of **SR 125 Toll Operations Investigation** recommendations to be provided to the Audit Committee and Board of Directors on a **biannual basis**.

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# Questions?

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## State Route 125 Toll Removal Process and Debt Retirement

### Overview

On July 8, 2022, the Board of Directors adopted Resolution No. 2023-11 (Attachment 1) to prioritize eliminating the debt and toll-only operations on State Route 125 (SR 125).

SANDAG staff collaborated closely with Caltrans to determine the required processes for removing toll-only operations and transferring the facility maintenance and operations to Caltrans. A report was presented to the Board of Directors at its [May 24, 2024](#) meeting and at its [October 11, 2024](#) meeting, the Board of Directors approved an amendment to the FY 2025 budget to fund the required initial planning work.

This report provides an update relative to the retirement of the debt and revisits the process needed to relinquish the facility to Caltrans in advance of the current Franchise Agreement end date.

### Key Considerations

#### *Elimination of State Route 125 Debt*

SANDAG purchased the SR 125 franchise from creditors following bankruptcy in December 2011 for \$341 million. As part of the purchase price, SANDAG inherited the outstanding TIFIA loan for the facility, which, along with the TransNet loan, were the only outstanding debt obligations for SR 125. The TIFIA loan was refinanced and the TransNet loan was repaid in 2017, when SANDAG issued the [Toll Revenue Senior Lien Bonds, 2017 Series A \(Bonds\)](#). The Bonds were issued at a \$194.14 million par value. The existing debt service schedule is provided as Attachment 2.

The Bonds were issued with a 10-year par call and “the Bonds maturing on or after July 1, 2028 are subject to redemption prior to their stated maturities, at the option of SANDAG, from any source of available funds, as a whole or in part, on any date on or after July 1, 2027, at the principal amount of the Bonds called for redemption plus accrued interest to the date fixed for redemption without premium.”

Based on Board feedback, the four potential scenarios considered in May 2024 were updated to reflect more current data and a final retirement of debt by 2030 as a step toward relinquishment of SR 125 to Caltrans. All scenarios account for the estimated cash that will be available through the estimated payoff timeframes shown in the table below. Although the debt could be repaid as early as 2027, there are other considerations related to the relinquishment of the roadway to Caltrans that may need to be met before toll-only operations could be removed. The scenarios have been updated, with the final scenario updated to from 2035 to 2030 to accelerate the removal of tolls and still provide some funding to make necessary improvements and bring the facility to a state of good repair prior to relinquishment. Attachment 3, memo

### Action: Information

Staff will present an overview of the process and anticipated costs to retire the debt and remove toll operations from State Route 125.

### Fiscal Impact:

The cost to pay-off debt varies depending on the pay-off date. The initial planning work to analyze removing the toll on State Route 125 (SR 125) and transferring the facility to Caltrans is \$400,000 and covered under Capital Improvement Program Project No. 1612502. The cost of future phases of work and ongoing operations and maintenance of the SR 125 will be determined following completion of this planning work.

### Schedule/Scope Impact:

Initial planning work is estimated to take 12 months.



from SANDAG's financial advisor, PFM, provides more information on the funds needed to retire the debt at each point in time.

		SCENARIO 1	SCENARIO 2	SCENARIO 3	SCENARIO 4
Pay-Off Date	July 1, 2024	July 01, 2025	July 1, 2027	July 01, 2029	July 01, 2030
	Last FY (unaudited)	Current FY	Call Date	Breakeven	Breakeven+1
Outstanding Principal	\$161.645M	\$155.825M	\$143.270M	\$129.395M	\$121.920M
Estimated Cash Balances*	\$99.789M	\$112.721M	\$125.441M	\$149.897M	\$164.006M
Debt Repayment Requirement	\$173.164M	\$163.446M	\$143.270M	\$129.395M	\$121.920M
Shortfall	-\$73.375M	-\$50.725M	-\$17.829M		
Funds available to reinvest in SR 125				+20.502M	+42.086M

\*includes \$20m funding from State of California

### **Process for Removing Toll and Transferring Facility to Caltrans**

SANDAG operates, maintains, and tolls SR 125 subject to the Development Franchise Agreement between Caltrans and SANDAG which is currently scheduled to terminate in November 2042. The Franchise Agreement allows SANDAG the flexibility to terminate at any time and relinquish rights back to Caltrans with certain conditions. Caltrans formal process to begin relinquishment starts with the Project Initiation Document (PID) and a Preliminary Environmental Analysis Report (PEAR). Caltrans estimates that this work will take 12 months to complete and cost approximately \$400,000. At its [October 11, 2024](#) meeting, the Board of Directors approved an amendment to the FY 2025 budget to fund this required planning work.

The PID will include a comprehensive assessment of the SR 125 (pavement condition, drainage systems, traffic management systems, American with Disabilities Act access, and bridges) to determine improvements needed to bring the facility into a state of good repair before transferring it back to Caltrans. The PID will also identify the cost of those improvements and the ongoing cost of maintenance and operations.

Removing the toll from SR 125 will require some level of environmental analysis to comply with the California Environmental Quality Act (CEQA) and National Environmental Policy Act (NEPA). The PEAR will determine the exact scope and cost of the environmental analysis.

## **Next Steps**

Caltrans is proceeding with the PID and PEAR as approved by the Board of Directors. This phase of planning will be completed by the end of 2025 and will provide the SANDAG Board of Directors with detailed information on the cost of future phases of work and ongoing operations and maintenance of SR 125.

***Antoinette Meier, Senior Director of Regional Planning***

***Dawn Vettese, Chief Financial Officer***

- Attachments:
1. Resolution No. 2023-11: Resolution of the San Diego Association of Governments (SANDAG) Declaring Support of Eliminating the Debt and Toll-only Operations on the SR-125 by 2027
  2. Debt Service Schedule
  3. PFM Memo



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San Diego, CA 92101  
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Fax (619) 699-1905  
sandag.org

## **Resolution No. 2023-11**

### **Resolution of the San Diego Association of Governments (SANDAG) Declaring Support of Eliminating the Debt and Toll-only Operations on the SR-125 by 2027**

WHEREAS, the South Bay Expressway (SBX) Toll Road, opened in 2007, is a ten-mile stretch of State Route 125 (SR-125) that runs from Otay Mesa Road near State Route 905 to SR 54; and

WHEREAS, the San Diego Association of Governments (SANDAG) purchased the SR-125 franchise from creditors, including the U.S. Department of Transportation, following bankruptcy in December 2011; and

WHEREAS, the SBX, owned by Caltrans and leased by SANDAG, operates as a toll road pursuant to the Amended and Restated Development Franchise Agreement (ARDFA) with the State of California until 2042, which is the agreement governing the day-to-day operations; and

WHEREAS, purchasing the toll road with the intent of removing the tolls in future years meant SANDAG could reduce the number of additional lanes planned for Interstate 805 through the South Bay and instead divert that savings to the purchase of the toll road; and

WHEREAS, the City of Chula Vista (City) partnered with the State of California and Caltrans in 2003 and dedicated 270 acres of right-of-way to the State for the development of SR-125; and

WHEREAS, per ARDFA Section 11.4, SANDAG has the obligation to arrange for retirement of the debt and will have an opportunity to call its debt bonds and eliminate toll-only operations as early as 2027; and

WHEREAS, it is important that toll-only facilities not place an undue and disproportionate burden on South Bay users or hinder the City's economic development activity in areas such as business attraction and retention; and

WHEREAS, the new U.S./Mexico border crossing in Otay Mesa facilitates more than \$530 billion in bilateral trade on an annual basis; and

WHEREAS, the new U.S. border crossing will connect to State Route 11 immediately south of the SBX and is anticipated to reduce wait times throughout the San Diego regional U.S./Mexico border crossing network, supporting further economic integration and activity in the border region; and

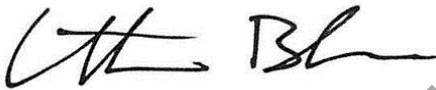
WHEREAS, a reliable north-south freeway corridor with toll free options will contribute to the bilateral trade with Mexico while providing social justice, environmental and financial benefits to the region, state and country; and

WHEREAS, the SANDAG Board of Directors has the authority to make the retirement of the debt a budgetary priority and goal.

NOW, THEREFORE, BE IT RESOLVED, that the SANDAG Board of Directors:

1. Prioritizes principles of the Regional Plan and California State Transportation Agency's Climate Action Plan for Transportation Infrastructure on the SR-125
2. Declares that elimination of debt and toll-only operations on the SR-125 is a priority;
3. Supports efforts to evaluate alternatives to toll-only operations (including managed lanes) for the SR-125;
4. Supports controlling planned operating and capital expenses in order to increase available reserve cash balances sufficient to retire the outstanding bond debt or minimize the need for additional funds to retire the remaining bond balance;
5. Supports collaborating with the City of Chula Vista and Caltrans on these efforts; and
6. Hereby directs staff to conduct a Comprehensive Multimodal Corridor Plan to analyze future options for the SR-125, develop a plan to pay off outstanding debt as early as 2027, make the SR-125 consistent with the Regional Plan, and develop strategies to revert control of the SBX to Caltrans following debt retirement.

PASSED AND ADOPTED this 8<sup>th</sup> of July 2022.



**Chair**

**Attest:**



**Secretary**

**Member Agencies:** Cities of Carlsbad, Chula Vista, Coronado, Del Mar, El Cajon, Encinitas, Escondido, Imperial Beach, La Mesa, Lemon Grove, National City, Oceanside, Poway, San Diego, San Marcos, Santee, Solana Beach, Vista, and County of San Diego.

**Advisory Members:** California Department of Transportation, Metropolitan Transit System, North County Transit District, Imperial County, U.S. Department of Defense, Port of San Diego, San Diego County Water Authority, Southern California Tribal Chairmen's Association, and Mexico.

Toll Revenue First Senior Lien Bonds, 2017 Series A  
Debt Service Schedule

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$3,070,000.00	\$10,690,044.45	\$13,760,044.45
2020	4,315,000.00	9,445,625.00	13,760,625.00
2021	4,535,000.00	9,224,375.00	13,759,375.00
2022	4,765,000.00	8,991,875.00	13,756,875.00
2023	5,010,000.00	8,747,500.00	13,757,500.00
2024	5,265,000.00	8,490,625.00	13,755,625.00
2025	5,535,000.00	8,220,625.00	13,755,625.00
2026	5,820,000.00	7,936,750.00	13,756,750.00
2027	6,120,000.00	7,638,250.00	13,758,250.00
2028	6,435,000.00	7,324,375.00	13,759,375.00
2029	6,765,000.00	6,994,375.00	13,759,375.00
2030	7,110,000.00	6,647,500.00	13,757,500.00
2031	7,475,000.00	6,282,875.00	13,757,875.00
2032	7,860,000.00	5,899,500.00	13,759,500.00
2033	8,260,000.00	5,496,500.00	13,756,500.00
2034	8,685,000.00	5,072,875.00	13,757,875.00
2035	9,130,000.00	4,627,500.00	13,757,500.00
2036	9,600,000.00	4,159,250.00	13,759,250.00
2037	10,090,000.00	3,667,000.00	13,757,000.00
2038	10,610,000.00	3,149,500.00	13,759,500.00
2039	11,155,000.00	2,605,375.00	13,760,375.00
2040	11,725,000.00	2,033,375.00	13,758,375.00
2041	12,325,000.00	1,432,125.00	13,757,125.00
2042	12,960,000.00	800,000.00	13,760,000.00
2043	9,520,000.00	238,000.00	9,758,000.00
<b>Total</b>	<b>\$194,140,000.00</b>	<b>\$145,815,794.45</b>	<b>\$339,955,794.45</b>



October 21, 2024

**MEMORANDUM**

**To:** SANDAG Board of Directors

**From:** PFM Financial Advisors LLC

**Re:** Potential Scenarios for Retiring Bonds Supported by State Route 125 Toll Revenues

**INTRODUCTION**

PFM Financial Advisors LLC ("PFM"), as financial advisor to SANDAG, has worked with SANDAG staff to analyze and estimate how soon all outstanding bonds on State Route 125 ("SR 125") may be repaid and retired ahead of their scheduled maturity. The repayment of all outstanding SR 125 Bonds is a requirement before SANDAG can stop assessing and collecting tolls on that facility.

SANDAG purchased the SR 125 franchise from creditors following bankruptcy in December 2011 for \$341 million. As part of the purchase price, SANDAG inherited the outstanding TIFIA loan for the facility, which, along with the TransNet loan, were the only outstanding debt obligations for SR 125. In November 2017, SANDAG issued Toll Revenue First Senior Lien Bonds, 2017 Series A (the "SR 125 Bonds" or the "Bonds") to refinance the TIFIA loan and repay the SANDAG loan. In the process, SANDAG lowered the annual repayment costs, compared to the TIFIA loan, through 2042 - the final maturity of the Bonds. The Bonds are secured from the toll revenues generated on SR 125 facility, net of operating expenses. As of October 21, 2024, the total bonds outstanding through 2042 is \$161.6 million. Annual principal and interest payments are level at \$13.9-14.0 million through July 1, 2042.

Summary of Outstanding SR 125 Bonds						
Series	Tax Status	Coupon Type	Original Par	Outstanding Par	Call Date	Final Maturity
2017A	Tax-Exempt	Fixed-Rate	\$194,140,000	\$161,645,000	7/1/2027	7/1/2042

Annual Debt Service Schedule			
Bond Year	Principal	Interest	Debt Service
7/1/2025	5,820,000	8,082,250	13,902,250
7/1/2026	6,120,000	7,791,250	13,911,250
7/1/2027	6,435,000	7,485,250	13,920,250
7/1/2028	6,765,000	7,163,500	13,928,500
7/1/2029	7,110,000	6,825,250	13,935,250
7/1/2030	7,475,000	6,469,750	13,944,750
7/1/2031	7,860,000	6,096,000	13,956,000
7/1/2032	8,260,000	5,703,000	13,963,000
7/1/2033	8,685,000	5,290,000	13,975,000
7/1/2034	9,130,000	4,855,750	13,985,750



7/1/2035	9,600,000	4,399,250	13,999,250
7/1/2036	10,090,000	3,919,250	14,009,250
7/1/2037	10,610,000	3,414,750	14,024,750
7/1/2038	11,155,000	2,884,250	14,039,250
7/1/2039	11,725,000	2,326,500	14,051,500
7/1/2040	12,325,000	1,740,250	14,065,250
7/1/2041	12,960,000	1,124,000	14,084,000
7/1/2042	9,520,000	476,000	9,996,000
<b>Total</b>	<b>161,645,000</b>	<b>86,046,250</b>	<b>247,691,250</b>

### **REPAYING THE SR 125 BONDS**

While the Bonds have a scheduled final maturity date of July 1, 2042, the legal documents were structured so that all outstanding Bonds may be “called” and repaid, without penalty, on July 1, 2027 (i.e., the “Call Date”), or any date thereafter. The sources of funding to repay the Bonds are toll revenues generated on the SR 125 facility, net of operating and maintenance expenses (i.e., “Net Toll Revenues”). This includes Net Toll Revenues that have accrued and are held in the SR 125 reserve accounts and cash balances as well as any future Net Toll Revenues. In addition to Net Toll Revenues, the State has contributed \$20 million towards the early repayment of the Bonds. The unaudited estimated cash balances as of June 30, 2024, including the state contribution was \$99.8 million.

There are two ways in which SANDAG may retire the SR 125 Bonds. First, SANDAG could deposit funds into an escrow account before the Call Date on July 1, 2027, and retire the Bonds early. Specifically, SANDAG would deposit funds into an escrow account, and purchase legally permissible securities with that cash deposit, and the payments from the securities held in escrow would be sufficient to pay the principal and interest costs on each semi-annual payment date up to the Call Date, and sufficient to pay all principal that would come due and be retired on the Call Date. This cash defeasance, funded prior to July 1, 2027, would allow SANDAG to deem the Bonds retired or “legally defeased” and SANDAG would not be required to continue collecting toll revenues, as far as the bond documents and investors are concerned.

The second way to retire the Bonds is to wait until the call date on July 1, 2027, or any day thereafter, and use available cash balances to pay the principal amount of Bonds outstanding at that time. Both ways of repaying and retiring the Bonds are common and legally acceptable.

The difference between the two approaches is one of timing. The cash defeasance with the use of an escrow allows SANDAG to repay the Bonds earlier and stop tolling earlier but requires a larger amount of cash on hand because SANDAG must *prepay* all Bonds and interest up to July 1, 2027. Repaying the Bonds on the Call Date of July 1, 2027, requires SANDAG to pay only the remaining amount of principal outstanding on the Call Date. In this context, these two strategies require the estimation of: when will the SR 125 facility have enough cash balances, together with the State contribution, to repay the Bonds, either before, on or after the Call Date? That is what we analyze below.





### **ESTIMATED TIMING FOR BOND REPAYMENT**

In this section we compare the financial cost of repaying the SR 125 Bonds before, on or after the Call Date to the estimated funds available in the SR 125 cash balances to pay that cost. The estimated cost of funding an escrow today to pay all principal and interest costs leading up to and including the Call Date on the Bonds is \$173.16 million. The unaudited estimated SR 125 cash balances at the end of fiscal year 2024, including the state contribution, total \$99.8 million. Consequently, SANDAG will have to continue collecting and accruing net toll revenue and paying annual debt service, unless additional funding is identified.

<b>SR 125 Bonds: Summary of Defeasance/Repayment Analysis</b>						
	<b>Scenario 1</b>	<b>Scenario 2</b>	<b>Scenario 3</b>	<b>Scenario 4</b>		
	<b>7/1/2024</b>	<b>7/1/2025</b>	<b>7/1/2027</b>	<b>7/1/2028</b>	<b>7/1/2029</b>	<b>7/1/2030</b>
	<b>Last FY</b>	<b>Current FY</b>	<b>Call Date</b>	<b>Breakeven-1</b>	<b>Breakeven</b>	<b>Breakeven+1</b>
Outstanding Principal	161,645,000	155,825,000	143,270,000	136,505,000	129,395,000	121,920,000
Estimated Cash Balances <sup>(1)</sup>	99,789,193	112,720,620	125,441,087	135,648,472	149,896,903	164,006,454
Debt Repayment Requirement <sup>(2)</sup>	173,164,032	163,446,131	143,270,000	136,505,000	129,395,000	121,920,000
<b>Shortfall</b>	<b>73,374,838</b>	<b>50,725,511</b>	<b>17,828,913</b>	<b>856,528</b>	<b>-</b>	<b>-</b>

(1) \$99.79 million estimated unaudited cash balance as of June 30, 2024. Future cash balances are forecasted estimates.

(2) Debt retirement requirement as July 1, 2024, and July 1, 2025 are estimated assuming certain escrow investment earnings.

The cost of retiring all outstanding SR 125 Bonds on the Call Date (July 1, 2027) is \$143.27 million. This equals the principal outstanding at that time. The cost decreases because SANDAG will have made payments in 2025 and 2026, thereby reducing the amount of Bonds outstanding. Based on financial forecasts for the SR 125 operating pro forma, SR 125 cash balances are expected to be approximately \$125.4 million at that time. Estimated cash balances are closer, but still \$17.8 million below the required amount to retire all outstanding debt on the Call Date.

Forecasting until July 1, 2028, the funds required to pay off all Bonds on that date is \$136.5 million. Cash balances estimated to be available at that time are forecast to be \$135.6 million: just \$856,000 below the required amount.

Forecasting further until July 1, 2029, the funds required to pay off all Bonds on that date is \$129.4 million. Cash balances estimated to be available at that time are forecast to be \$149.9 million: \$20.5 million is excess of the required amount. Forecasting through the following year, the Bond repayment amount is \$121.9 million on July 1, 2030, with cash balances estimated to be \$164.0 million: approximately \$42.0 million in excess of the amount needed.

Based upon these estimated forecasts and the operating pro forma for SR 125, July 1, 2029, is the approximate date that SANDAG would be expected to have sufficient cash balances to fully pay off all of the Bonds. This is two years after the Call Date. At that point SANDAG could call and repay all outstanding SR 125 Bonds and there would be no requirement from a bond-holder or investor perspective to continue collecting tolls.





## Process for Retiring Debt and Removing Tolls on SR 125

Board of Directors | Item 8

**Dawn Vettese**, *Chief Financial Officer*  
**Antoinette Meier**, *Senior Director of Regional Planning*  
**Nikki Tiongco**, *Caltrans South County Corridor Director*  
October 25, 2024

### Resolution 2023-11

1. Prioritizes principles of the Regional Plan and California State Transportation Agency's Climate Action Plan for Transportation Infrastructure on the SR-125;
2. Declares that elimination of debt and toll-only operations on the SR-125 is a priority;
3. Supports efforts to evaluate alternatives to toll-only operations (including managed lanes) for the SR-125;
4. Supports controlling planned operating and capital expenses in order to increase available reserve cash balances sufficient to retire the outstanding bond debt or minimize the need for additional funds to retire the remaining bond balance;
5. Supports collaborating with the City of Chula Vista and Caltrans on these efforts; and
6. Hereby directs staff to conduct a Comprehensive Multimodal Corridor Plan to analyze future options for the SR-125, develop a plan to pay off outstanding debt as early as 2027, make the SR-125 consistent with the Regional Plan, and develop strategies to revert control of the SBX to Caltrans following debt retirement.

## Debt Service and Debt Retirement

### Toll Revenue First Senior Lien Bonds, 2017 Series A

#### Issuance

Amount SANDAG is obligated to repay:  
**\$194.140 million**

#### Callable bond

has an option for SANDAG to redeem before maturity date. Terms allow bond to be called after 10 years from being issued (2027).

#### Optional Redemption

Bonds maturing on or after

**July 1, 2028**

may be redeemed any time after

**July 1, 2027**

at the principal amount plus accrued interest at SANDAG's option without premium

#### Flow of Funds

- Operations & Maintenance (O&M)
- Rebate Fund
- Bonds Interest Account
- Bonds Principal Account
- Bonds Reserve
- O&M Reserve
- Capital Exp. Fund
- Net Excess Revenues

#### Rate Covenant

SANDAG has an obligation to always produce and maintain enough net revenue through tolling each fiscal year to meet

- **150%** of annual debt service on **outstanding Senior Lien debt**
- **100%** of the annual debt service **for outstanding debt and reserve fund requirements**

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## Debt Service and Debt Retirement

### Summary of Debt Service Schedule

#### Scheduled Payments of Principal and Interest on Bonds

Fiscal Year Ending June 30,	Principal	Interest	Total
2019	\$3,070,000.00	\$10,690,044.45	\$13,760,044.45
2020	4,315,000.00	9,445,625.00	13,760,625.00
2021	4,535,000.00	9,224,375.00	13,759,375.00
2022	4,765,000.00	8,991,875.00	13,756,875.00
2023	5,010,000.00	8,747,500.00	13,757,500.00
2024	5,265,000.00	8,490,625.00	13,755,625.00
2025	5,535,000.00	8,220,625.00	13,755,625.00
2026	5,820,000.00	7,936,750.00	13,756,750.00
2027	6,120,000.00	7,638,250.00	13,758,250.00
2028	6,435,000.00	7,324,375.00	13,759,375.00
2029	6,765,000.00	6,994,375.00	13,759,375.00
2030	7,110,000.00	6,647,500.00	13,757,500.00
2031	7,475,000.00	6,282,875.00	13,757,875.00
2032	7,860,000.00	5,899,500.00	13,759,500.00
2033	8,260,000.00	5,496,500.00	13,756,500.00
2034	8,685,000.00	5,072,875.00	13,757,875.00
2035	9,130,000.00	4,627,500.00	13,757,500.00
2036	9,600,000.00	4,159,250.00	13,759,250.00
2037	10,090,000.00	3,667,000.00	13,757,000.00
2038	10,610,000.00	3,149,500.00	13,759,500.00
2039	11,155,000.00	2,605,375.00	13,760,375.00
2040	11,725,000.00	2,033,375.00	13,758,375.00
2041	12,325,000.00	1,432,125.00	13,757,125.00
2042	12,960,000.00	800,000.00	13,760,000.00
2043	9,520,000.00	238,000.00	9,758,000.00
Total	\$194,140,000.00	\$145,815,794.45	\$339,955,794.45

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## Proposed SR 125 Toll Removal Financial Scenarios

		Scenario 1	Scenario 2	Scenario 3	Scenario 4
	July 1, 2024 Last FY (unaudited)	July 01, 2025 Current FY	July 1, 2027 Call Date	July 01, 2029 Breakeven	July 01, 2030 Breakeven+1
Outstanding principal on debt	\$161.645M	\$155.825M	\$143.270M	\$129.395M	\$121.920M
SR 125 Estimated Cash Balances*	\$99.789M	\$112.721M	\$125.441M	\$149.897M	\$164.006M
Debt Repayment Requirement	\$173.164M	\$163.446M	\$143.270M	\$129.395M	\$121.920M
Funds available after debt repayment	--	--	--	\$20.502M	\$42.086M
SR 125 Toll Removal Project Cost	TBD	TBD	TBD	TBD	TBD
Estimated Remaining Need	\$73.375M+	\$50.725M+	\$17.829M+	TBD	TBD

\*Includes \$20M received from State of California

NOTE: Financial stability projections are based on current revenue trends, but may change due to unforeseen events requiring financial reassessment.

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## Next Steps

- Negotiate with Caltrans to relinquish the toll road
- BOD considers Regional Plan adoption
- Complete Project Initiation Document (PID) & Preliminary Env. Analysis Report (PEAR)
- Environmental Analysis

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