



Audit Committee Agenda

Friday, November 1, 2024

9 a.m.

Welcome to SANDAG. The Audit Committee meeting scheduled for Friday, November 1, 2024, will be held in person in the SANDAG Board Room. While Audit Committee 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/86760463778>

Webinar ID: 867 6046 3778

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Public Comments: Members of the public may speak to the Audit Committee on any item at the time the Audit Committee is considering the item. Public speakers are generally limited to three minutes or less per person.

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 (please reference Audit Committee 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 |

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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.



Audit Committee

Friday, November 1, 2024

Comments and Communications

1. Non-Agenda Public Comments/Member Comments

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

2. Office of the Independent Performance Auditor Activities

Information

Courtney Ruby, Independent Performance Auditor

The Independent Performance Auditor will present an update on the Office of the Independent Performance Auditor's activities and other sharing events.

Consent

+3. Approval of Meeting Minutes

Approve

Francesca Webb, SANDAG

+3A. July 11, 2024, Special Meeting Minutes

The Audit Committee is asked to approve the minutes from its special meeting on July 11, 2024.

[Meeting Minutes](#)

+3B. October 11, 2024, Special Meeting Minutes

The Audit Committee is asked to approve the minutes from its special meeting on October 11, 2024.

[Meeting Minutes](#)

Reports

+4. Management Response to the Office of the Independent Performance Auditor's Companion Investigation Reports to the State Route 125 Tolling Operations Investigation

Discussion/
Possible Action

Mario Orso, SANDAG

Chief Executive Officer Orso will present the management response to the Office of the Independent Performance Auditor's Companion Investigation Reports to the State Route 125 Tolling Operations Investigation for information.

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

+5. Matters to be Communicated in Accordance with Auditing Standards

Information

Kimberly Trammel, SANDAG; Jennifer Farr, Davis Farr LLP

In accordance with the Statement of Auditing Standards 114 (SAS 114), SANDAG staff and Jennifer Farr will present an overview of the FY 2024 SANDAG Financial

Audit Plan.

Matters to be Communicated in Accordance with Auditing Standards

Att. 1 - FY 2024 Audit Communications Letter

Presentation

6. Update on the Independent Performance Auditor's Annual Performance Review

Discussion/
Possible Action

David Zito, Audit Committee Chair

The Audit Committee is asked to discuss the status of the Independent Performance Auditor's performance review for the period from November 2023 to October 2024.

Presentation

Adjournment

7. Adjournment

The next Audit Committee meeting is scheduled for Friday, December 6, 2024, at 2 p.m.

+ next to an agenda item indicates an attachment

November 1, 2024

July 11, 2024, Special Meeting Minutes

[View Meeting Video](#)

Chair David Zito (Board Member) called the meeting of the Audit Committee to order at 1:02 p.m.

1. Non-Agenda Public Comments/Member Comments

Public Comments: Katheryn Rhodes, Consuelo, Truth.

Member Comments: None.

2. Office of the Independent Performance Auditor (OIPA) Activities

Independent Performance Auditor Courtney Ruby presented an update on the active audits and investigations of the OIPA.

Public Comments: Truth.

Action: Information.

Consent

3. Approval of Meeting Minutes

The Audit Committee was asked to approve its June 7, 2024, meeting minutes.

Public Comments: Truth.

Action: Upon a motion by Vice Chair Dave Druker (Board Member), and a second by Shawnee Pickney-Forrest (Public Member), the Audit Committee voted to approve the minutes from its June 7, 2024, meeting.

The motion passed.

Yes: Chair Zito, Vice Chair Druker, Shawnee Pickney-Forrest, and Rowena Dorsey (Public Member).

No: None.

Abstain: None.

Absent: Agnes Wong Nickerson (Public Member).

Reports

4. Office of the Independent Performance Auditor - FY 2025 Annual Audit Plan

Courtney Ruby, Independent Performance Auditor, presented the item.

Public Comments: Katheryn Rhodes, Consuelo.

Action: Upon a motion by Vice Chair Druker and a second by Rowena Dorsey, the Audit Committee voted to approve the proposed FY 2025 Audit Plan and recommend it to the Board of Directors for ratification.

The motion passed.

Yes: Chair Zito, Vice Chair Druker, Shawnee Pickney-Forrest and Rowena Dorsey.

No: None.

Abstain: None.

Absent: Agnes Wong Nickerson.

5. Office of the Independent Performance Auditor - FY 2024 Annual Investigations Report

Courtney Ruby and Doug D’Pete, Principal Independent Performance Auditor, presented the Annual Investigations Report (Report).

Public Comments: Katheryn Rhodes, Consuelo, Paul Henkin.

Action: Upon a motion by Vice Chair Druker and a second by Rowena Dorsey, the Audit Committee voted to recommend the Report be provided to the Board of Directors for information.

The motion passed.

Yes: Chair Zito, Vice Chair Druker, Shawnee Pickney-Forrest and Rowena Dorsey.

No: None.

Abstain: None.

Absent: Agnes Wong Nickerson.

6. Office of the Independent Performance Auditor - Summary of the Performance Audit of SANDAG's Contracts, Invoicing, and Payment Process for the Audit Period of July 1, 2019, to June 30, 2023

6A. Performance Audit of SANDAG's Contracts Invoicing, and Payment Process

Courtney Ruby presented a summary of the Performance Audit of SANDAG's Contracts Invoicing, and Payment Process for the audit period of July 1, 2019, to June 30, 2023, including the audit results and recommendations.

6B. Management's Response and Corrective Action Plan

Director of Contracts and Procurement Kelly Mikhail and Director of Finance Kimberly Trammel presented their response and proposed corrective action plan.

Public Comments: Consuelo, Paul Hankin, Truth.

Action: Discussion.

7. Adjournment

The next Audit Committee meeting is a special meeting scheduled for Thursday, September 6, 2024, at 9 a.m.

Chair Zito adjourned the meeting at 3:05 p.m.

Confirmed Attendance at Audit Committee Meeting

Jurisdiction/Organization	Name	Member/ Alternate	Attended
Board Member	David Zito (Chair)	Primary	Yes
Board Member	David Druker (Vice Chair)	Primary	Yes
Public Member	Shawnee Pickney-Forrest	Primary	Yes
Public Member	Agnes Wong Nickerson	Primary	No
Public Member	Rowena Dorsey	Primary	Yes
Board Member	Ed Musgrove	Alternate	No

November 1, 2024

October 11, 2024, Special Meeting Minutes

[View Meeting Video](#)

Chair David Zito (Board Member) called the meeting of the Audit Committee to order at 3:17 p.m.

1. Non-Agenda Public Comments/Member Comments

Public Comments: Michael Brando, Kathryn Rhodes, Truth, and Blair Beekman.

Member Comments: None.

Reports

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

Independent Performance Auditor Courtney Ruby and Associate Administrative Analyst Emilee Mullin presented the item.

Public Comments: None.

Action: Upon a motion by Vice Chair David Druker (Board Member), and a second by Agnes Wong-Nickerson (Public Member), the Audit Committee voted to recommend that the reports be provided to the Board of Directors as information.

The motion passed.

Yes: Chair Zito, Vice Chair Druker, Shawnee Pickney-Forrest (Public Member) and Agnes Wong-Nickerson.

No: None.

Abstain: None.

Absent: Rowena Dorsey (Public Member).

5. Office of the Independent Performance Auditor's Companion Investigation Reports to the State Route 125 Toll Operations Investigation*

Courtney Ruby and Principal Independent Performance Auditor Doug D'Pete presented the Annual Investigations Report.

Public Comments: None.

Action: Upon a motion by Vice Chair Druker, and a second by Shawnee Pickney-Forrest, the Audit Committee voted to recommend the reports be provided to the Board of Directors for information.

The motion passed.

Yes: Chair Zito, Vice Chair Druker, Shawnee Pickney-Forrest, and Agnes Wong-Nickerson.

No: None.

Abstain: None.

Absent: Rowena Dorsey.

6. Annual Performance Review for the Independent Performance Auditor*

Chair Zito presented the item.

Public Comments: Blair Beekman.

Action: Upon a motion by Vice Chair Druker, and a second by Agnes Wong Nickerson, the Audit Committee voted to create a subcommittee consisting of Chair Zito and Shawnee Pickney-Forrest, to evaluate the Independent Performance Auditor's performance and return to the Audit Committee with a salary recommendation for the upcoming year.

The motion passed.

Yes: Chair Zito, Vice Chair Druker, Shawnee Pickney-Forrest, and Agnes Wong-Nickerson.

No: None.

Abstain: None.

Absent: Rowena Dorsey.

2. Office of the Independent Performance Auditor Activities*

This item was continued to a future meeting.

Consent

3. Approval of Meeting Minutes*

This item was continued to a future meeting.

7. Adjournment

The next Audit Committee meeting is scheduled for Friday, November 1, 2024, at 9 a.m.

Chair Zito adjourned the meeting at 5:03 p.m.

**These items were taken out of order

Confirmed Attendance at Audit Committee Meeting

Jurisdiction/Organization	Name	Member/ Alternate	Attended
Board Member	David Zito (Chair)	Primary	Yes
Board Member	David Druker (Vice Chair)	Primary	Yes
Public Member	Shawnee Pickney-Forrest	Primary	Yes
Public Member	Agnes Wong Nickerson	Primary	Yes
Public Member	Rowena Dorsey	Primary	No
Board Member (Alternate)	Ed Musgrove	Alternate	No



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

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.

November 1, 2024

Matters to be Communicated in Accordance with Auditing Standards

Overview

The independent certified public accounting firm of Davis Farr LLP will perform the SANDAG annual financial audit for the fiscal year ending June 30, 2024 (FY 2024). Professional auditing standards require that as part of an audit, and in compliance with the Statement of Auditing Standards (SAS) No. 114, the auditor is required to communicate certain matters to the governing body.

Discussion

Davis Farr LLP has provided a SAS 114 letter (Attachment 1), which includes certain matters related to the financial statements of SANDAG and its related entities. SANDAG related entities include two blended component units: San Diego County Regional Transportation Commission and SourcePoint; and the Automated Regional Justice Information System, a discretely presented component unit.

The principal purpose of this requirement is to clearly communicate responsibilities of the auditor in relation to the financial statement audit, provide an overview of the scope and timing of the audit, to obtain information relevant to the audit, and to provide timely observations arising from the audit that are relevant to those charged with governance responsibilities in overseeing the financial reporting process. Upon completion of the audit, and in accordance with SAS No. 114, the auditor also should communicate any significant findings with those charged with governance.

Next Steps

Based on the planned timing of the audit, the FY 2024 Annual Comprehensive Financial Report is scheduled for issuance in mid-February. The report and any required auditor communication are anticipated for presentation to the Audit Committee and Board of Directors in March 2025.

Kimberly Trammel, Director of Accounting and Finance

Attachment: 1. FY 2024 Audit Communications Letter

Action: Information

In accordance with the Statement of Auditing Standards 114 (SAS 114), SANDAG staff and Jennifer Farr will present an overview of the FY 2024 SANDAG Financial Audit Plan.

Fiscal Impact:

The Davis Farr LLP agreement annual cost was negotiated at the time of procurement. The \$190,092 annual cost is funded from federal, state, *TransNet*, toll, member assessment, and other revenues.

Schedule/Scope Impact:

FY24 interim audit was performed in July 2024. The year-end audit will start on December 2024.



Davis Farr LLP
18201 Von Karman Avenue | Suite 1100 | Irvine, CA 92612
Main: 949.474.2020 | Fax: 949.263.5520

October 21, 2024

Audit Committee
San Diego Association of Governments
San Diego, California

This letter is provided in connection with our engagement to audit the financial statements of the San Diego Association of Governments ("SANDAG") as of and for the year ended June 30, 2024. Professional standards require that we communicate with you certain items including our responsibilities with regard to the financial statement audit and the planned scope and timing of our audit, including significant risks we have identified.

Our Responsibilities

As stated in our engagement letter dated June 24, 2024, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards for the purpose of forming and expressing an opinion about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit does not relieve you or management of your respective responsibilities.

Our responsibility relating to other information, whether financial or nonfinancial information (other than financial statements and the auditor's report thereon), included in the entity's Annual Comprehensive Financial Report ("ACFR") includes only the information identified in our report. We have no responsibility for determining whether the Introductory Information, the Statistical Information, and the Continuing Disclosure Section of the ACFR is properly stated. We require that we receive the final version of the ACFR in a timely manner prior to the date of the auditor's report, or if that is not possible, as soon as practicable and, in any case, prior to the entity's issuance of such information.

Planned Scope of the Audit

Our audit will include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our audit is designed to provide reasonable, but not absolute, assurance about whether the financial statements as a whole are free of material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations. Because of this concept of reasonable assurance and because we will not examine all transactions, there is a risk that material misstatements may exist and not be detected by us.

Our audit will include obtaining an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements and as a basis for designing the nature, timing, and extent of further audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. However, we will communicate to you at the conclusion of our audit any material weaknesses or significant deficiencies identified. We will also communicate to you:

- Any violation of laws or regulations that come to our attention;
- Our views relating to qualitative aspects of the entity's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures;
- Significant difficulties, if any, encountered during the audit;
- Disagreements with management, if any, encountered during the audit;
- Significant unusual transactions, if any;
- The potential effects of uncorrected misstatements on future-period financial statements; and
- Other significant matters that are relevant to your responsibilities in overseeing the financial reporting process.

We begin the interim audit procedures in July 2024 and plan to return for our final audit examination in December 2024. We will present the audit reports and results of the audit to the Audit Committee at the completion of the audit.

In addition to our standard audit approach, our engagement team plans to expand our testing in the following areas:

Risk of errors implementing new ERP system: We will review SANDAG's documentation of converting system data to the new system. We will utilize a Certified Information Systems Auditor to evaluate the system controls of the new ERP system, identify key internal controls, and evaluate the effectiveness of the controls.

Risk of errors in toll revenues: As a result of documented issues with the toll road back off system in the prior year, we have identified toll revenues as a high risk audit area. Our audit approach will include evaluating whether or not the system can be relied upon to ensure there are no material misstatements in the financial statements.

Risk of errors recording new debt: SANDAG issued 2023 Series A Sales Tax Revenue Bonds for purposes of refunding existing debt and terminating certain interest rate swaps. Due to the complexity of the transaction, we plan to review the journal entry for accuracy and ensure the related footnote disclosures are complete and accurate.

October 21, 2024
Audit Committee

Risk of federal grant noncompliance: We will evaluate SANDAG's federal grants to determine which grants are required to be audited under the Federal Uniform Guidance. We will test those grants for compliance with the Uniform Guidance and the applicable grant agreements.

The auditing standards require the auditors to perform an unpredictability test each year. This year's test will focus on additional evaluation of governmental receivables including confirming significant receivables with 3rd parties.

Professional auditing standards require that, as a part of our audit, we inquire of those in governance to ascertain whether or not the Audit Committee (the "Committee") has knowledge of matters that might have a bearing on the auditor's risk assessment for the annual audit of SANDAG's financial statements.

Examples of these matters are:

Known or suspected instances of employee fraud

Areas in which the internal controls of SANDAG are thought by the Committee to be weak

Known or suspected misstatements in the accounting records of SANDAG

Known or suspected use of improper accounting practices by SANDAG

Any awareness of pressure upon SANDAG or Authority management with respect to achieving certain financial results

Matters that warrant particular attention during the audit

Information about unusual transactions or other matters relevant to the audit

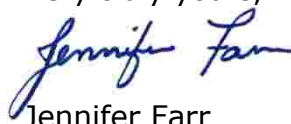
Generally, the scope of the audit is limited to

! . If additional time is required to respond to the concerns of the Committee, we will estimate for SANDAG the costs involved.

This information is intended solely for the information and use of the Audit Committee and Management of the San Diego Association of Governments and is not intended to be and should not be used by anyone other than these specified parties.

If any member of the committee has information relevant to our audit (matters involving amounts that would be significant to the financial statements of SANDAG taken as a whole), please contact the undersigned at (949) 783-1740 or JFarr@davisfarr.com.

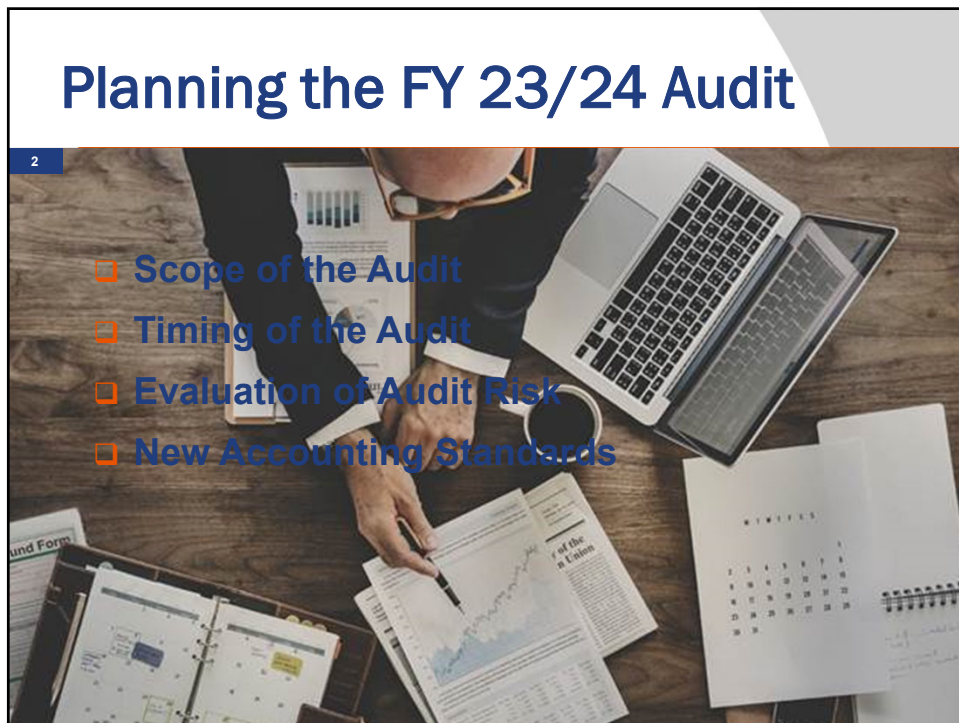
Very truly yours,



Jennifer Farr
Davis Farr LLP



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Engagement Team

3

Key Engagement Team Members



Partner



Manager



Manager



Supervisor



Senior



Quality Control and IT Partners



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Scope of the Engagement

4

SANDAG
Audit

Transportation
Commission
Audit

ARJIS

Sourcepoint

South Bay
Expressway

Federal Single
Audit

TDA and STA
recipient
Audits

Agreed Upon
Procedures



4

Audit Engagement Letter

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❑ Auditor Responsibilities

- ❑ Identify and assess the risk of material misstatement
- ❑ Obtain an understanding of internal control
- ❑ Evaluate accounting policies and estimates
- ❑ Evaluate Entity's ability to continue as a going concern
- ❑ Perform tests of compliance with laws and regulations
- ❑ Because of the inherent limitations of an audit there is an unavoidable risk that some material misstatements may not be detected even though the audit is properly planned and performed



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Audit Engagement Letter

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❑ Management Responsibilities

- ❑ Preparation and fair presentation of the financial statements in accordance with accounting principles
- ❑ Design and implementation of internal controls
- ❑ Provide auditors with unrestricted access to information
- ❑ Ensuring compliance with laws and regulations
- ❑ Accuracy and completeness of information provided



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Timing of the Engagement

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- ❑ **Preliminary Audit Procedures**
 - ❑ Occurred in July 2024
 - ❑ Evaluation of internal controls, transaction testing, fraud questionnaires, other planning procedures
- ❑ **Final Audit Procedures**
 - ❑ Scheduled to begin December 3rd
 - ❑ Procedures designed to determine if there are any material misstatements in the financial statements
- ❑ **TDA and STA Audits** – Sept to Dec 2024
- ❑ **Single Audit** – February 2025



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Identification of Audit Risk

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- ❑ **Auditors evaluate risk based on:**
 - ❑ Knowledge of the entity
 - ❑ External factors (Local News, State Law)
 - ❑ Government risk alerts
 - ❑ Fraud inquiries of SANDAG staff, Independent Performance Auditor, and those in governance
- ❑ **Additional procedures are performed in audit areas identified as a high or significant risk**



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Risk Areas Identified by Auditors

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- ❑ Implementation of new ERP system
 - ❑ Risk is due to conversion of data into new system, new processes, and changes in the IT environment
- ❑ Toll Revenues
 - ❑ Prior year issues with back office system
- ❑ 2023 Series A Sales Tax Revenue Bonds
 - ❑ Complexity of debt refunding and interest rate swap termination accounting



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Risk Areas Identified by Auditors

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- ❑ Federal Single Audit compliance
- ❑ Unpredictability test for FY 23/24
 - ❑ Additional testing of governmental receivables to ensure proper cutoff and collectability
 - ❑ Will include retaining 3rd party confirmations of balance from other governmental entities



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Accounting Standard Update

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- ❑ FY 23/24 Implementation
 - ❑ GASB 101 – Accounting for changes and error corrections
- ❑ FY 24/25 Implementation
 - ❑ GASB 101 – Compensated Absences
 - ❑ GASB 102 – Certain Risk Disclosures
- ❑ FY 25/26 Implementation
 - ❑ GASB 103 – Financial Reporting Model
 - ❑ GASB 104 – Disclosures of Certain Capital Assets



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Questions and Comments?

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OIPA Accomplishments

November 2023 – October 2024

SANDAG Audit Committee
November 1, 2024

Courtney Ruby, CPA, CFE
Independent Performance Auditor

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Background

Board Policy No. 039, section 3.1.11 states that it is the responsibility of the Audit Committee to “conduct the independent performance auditor’s annual performance evaluation against performance measures established and adopted by the Audit Committee.”

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A Year in Review

New Independent Performance Auditor's Focus:

Purpose, People and Results

Independence • Transparency • Accountability

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Purpose • People • Results

PURPOSE

To create a model independent audit and investigative oversight office

- looking into what matters most, when it matters—prioritizing impact
- leveraging limited resources to achieve timely accountability and transparency

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Purpose • People • Results

PEOPLE

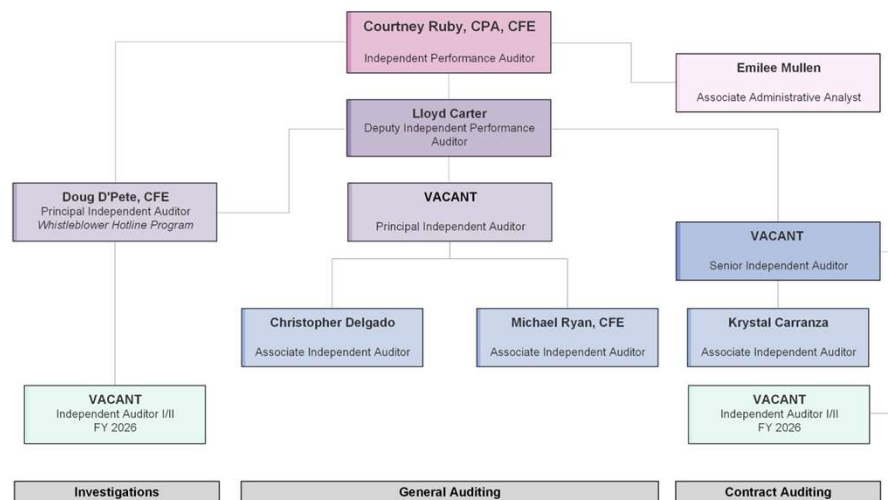
- Successful leadership transition and team integration
- Staff reorganization and recruitment:
 - Audit Staff Analysis presented February 2024
- Defined team performance expectations
- Established audit and investigation training program

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Staff Reorganization and Recruitment



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Staff Hiring and Recruitment

Associate Administrative Analyst joined OIPA's team in May 2024 to assist with procurements, publications, data visualization, and other analytical and administrative tasks.

Immediate increase in productivity including:

- 3 procurements in process: Finance department assessment, outside legal services, and a third-party Whistleblower Hotline provider.
- Developed new report format for OIPA Audit and Investigation Recommendation and Corrective Action Plan Status Report, worked alongside team during verification process and drafted a recommendation dashboard for OIPA website.
- Procured new audit time-keeping and recommendation tracking software.

Recruitments began in August 2024 for **Principal Independent Performance Auditor** (Audit Manager) and **Senior Independent Performance Auditor**.

Plans to add two additional Independent Performance Auditor I/II's in FY 2026.

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Defined Team Performance Expectations

Transparency and Accountability

Management Expectations	Staff Expectations
Management: Strategically plan, supervise, and oversee audit functions and WB Hotline operations to achieve high levels of effectiveness and productivity.	Professional Judgment: Demonstrate sound and reliable professional judgment
Standards Compliance: Ensure adherence to investigative and government auditing standards, as well as the ethical guidelines set by the Association of Certified Fraud Examiners (ACFE) and the Institute of Internal Auditors (IIA).	Analytical Skills: Effectively evaluate data, draw informed conclusions, and substantiate your work.
Demonstrated advanced knowledge, skills and abilities: Appropriate to the job classification.	Problem Solving: Solve work problems efficiently and ask for help when necessary.
Professional Relationships: Cultivate and sustain collaborative relationships with Board members, member agencies, community groups, and other relevant stakeholders.	Time Management: Multitask, prioritize work, and meet deadlines.
Leadership Development: Actively participate in professional organizations such as the Association of Local Government Auditors (ALGA), the Institute of Internal Auditors (IIA), and the Association of Certified Fraud Examiners (ACFE) to foster leadership growth.	Skill Development: Develop job skills and knowledge and proactively identify and address gaps.
Staff Development: Provide training, mentorship, and support for staff career growth, while implementing effective performance management practices.	Communication: Convey information clearly and effectively in both written and verbal forms.
	Attention to Detail: Ensure quality and accuracy in work products and reports, meet set expectations, and verify accuracy.
	Work Attitude: Prioritize work, seek feedback for improvement, and learn from audits and investigations to avoid repeating issues.
	Teamwork: Be a supportive team member and offer help when needed.

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Established Audit and Investigation Training Program

IPA's Staff Development Philosophy – it is my responsibility to ensure every team member has what they need to succeed and to impart my knowledge & passion of government accountability to my team through training, fun, connection and leadership

OIPA Staff Development Performance Measures for FY 2025 Audit Plan include: 1) Auditors will adhere to professional certification and licensing requirements, completing no less than 40 annual hours of continuing education. 2) Increase specialized audit and investigations expertise within the OIPA. 50% of audit team to participate in specialized training in contracting and investigations.

Accomplishments

GAO Government Auditing Standards Continuing Professional Education

28 hours CPE completed by 5 out of 6 team members between August and October, by December all audit team members will have 40 hours CPE.

Specialized Training and Certifications

Completed Certified Inspector General Investigator (CIFI) Certification Course

- 34 hours CPE completed by Courtney Ruby and Doug D'Pete in August 2024

OIPA's Certified Fraud Examiners:

- Michael Ryan certified November 2023
- Doug D'Pete certified September 2024
- Courtney Ruby certified February 2010

Joined Association of Local Government Auditors (ALGA) in July 2024

ALGA is an important professional organization for training, networking, leadership development and information sharing among peers.

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Purpose • People • Results

RESULTS

- Annual Reports (5)
 - Revised Annual Audit Plan FY 2024
 - Annual Investigations Report FY 2024
 - Risk Assessment and Annual Audit Plan FY 2025
 - Audit and Investigation Recommendation and Corrective Action Plan Status Report
 - External Audit Recommendation Compilation Report

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Purpose • People • Results

RESULTS

- Audits Released (2)
 - Operational Process and System Control Audit for Board Member and Employee Travel and Other Business-Related Reimbursements (*work performed under former IPA, released under new IPA*)
 - Performance Audit of SANDAG's Contracts and Invoicing Payment Process
- Audits Launched (2)
 - SANDAG's Sole Source Procurement Process
 - SANDAG's Contracting with HNTB

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Purpose • People • Results

RESULTS

- Investigation Reports Released (3) and Detailed Response (1)
 - 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
 - *Investigation Response* to Management's Response to the Investigation Report on SANDAG's State Route 125 Toll Operations
 - Investigation Report on SANDAG's State Route 125 Toll Operations
- OIPA Outreach

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Annual Reports

- **Fiscal Year 2024 Revised Annual Audit Plan**
 - Released January 5, 2024
 - Outlined revised strategic goals, performance measure, and audit plan for FY 2024.
- **Fiscal Year 2024 Annual Investigations Report**
 - Released July 3, 2024
 - Summary of OIPA's Investigation Report on SANDAG's SR 125 Toll Operations and an overview of all Whistleblower Hotline cases received and/or investigated in FY 2024.
- **Fiscal Year 2025 Risk Assessment and Annual Audit Plan**
 - Released July 3, 2024
 - Outlined strategic goals for the new fiscal year, performance measures, risk assessment process, and audit plan for FY 2025.
- **Fiscal Year 2024 Annual Audit and Investigation Recommendation and Corrective Action Plan Status Report**
 - Released October 4, 2024
 - Comprehensive overview of OIPA performance audit and investigation recommendations for FY 2024; all information on implementation status is verified via testing and/or document review.
- **Fiscal Year 2024 Annual External Audit Recommendation Compilation**
 - Released October 4, 2024
 - Reference tool which allows Audit Committee, Board Members, SANDAG Management and the public to easily access the status of all outstanding external audit recommendations for FY 2024.

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Audits

- **Operational Process and System Control Audit for Board Member and Employee Travel and Other Business-Related Reimbursements**
 - Released December 8, 2023.
 - Scope: July 1, 2020, through May 31, 2023
 - Management committed to standardizing request forms and updating guidelines for employee business travel and professional development.
- **Performance Audit of SANDAG's Contracts and Invoicing Payment Process**
 - Released July 3, 2024.
 - Scope: July 1, 2019, through June 30, 2023
 - Management committed to developing additional training, oversight, and approval requirements for invoice payments.
- **Audits of SANDAG's Sole Source Procurement Process and Contracting with HNTB are underway.**
 - Sole source audit is to determine if sole source procurements are justified, documented, and in compliance with policies, procedures, laws and regulations.
 - Scope: July 1, 2022, through June 30, 2024
 - HNTB/SANDAG contracting performance audit is to determine if awards were competed appropriately, work was delivered on time and within budget and to evaluate SANDAG's contract oversight structure including when oversight is managed internally versus externally.
 - Scope: July 1, 2019, through June 30, 2024

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Investigations

- **Investigation Report on SANDAG's SR 125 Toll Operations (March 2024)**
 - Investigation completed on an accelerated, three-month timeline.
 - Identified seven (7) findings, including that ETAN's financial reporting cannot be relied upon, and the Finance department lacks adequate internal controls, including proper review and supervision, to ensure SR 125 financial information is accurately recorded and reported.
- **Investigation Response to Management's Response to the Investigation Report on SANDAG's State Route 125 Toll Operations (April 2024)**
 - Identified areas of Management's Response that were inconsistent with the investigation findings and required further clarification or additional information from Management.
- **Companion Investigation to the SR 125 Toll Operations Investigation (October 2024)**
 - Identified four (4) findings, including that SANDAG's Executive Team were all aware of ETAN's back-office system performance issues, and SANDAG embarked on four different paths to address the operational crisis caused by ETAN's inability to meet critical contractual requirements.
- **Whistleblower Hotline Investigation on SR 125 Back-Office System Implementation (October 2024)**
 - Investigation revealed several significant issues with the implementation of the replacement back-office system from Deloitte and A-to-Be, including that SANDAG's financial reporting needs were not considered during the procurement process.

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OIPA Outreach

- **OIPA and the Investigation Report on SR 125 Toll Operations Q&A Sessions:**
 - April 17, 2024 – Virtual Meeting attended by approx. 135 employees
 - April 18, 2024 – In-Person Meeting attended by approx. 20 employees
 - April 18, 2024 – Engineering & Construction Team meeting attended by approx. 25 employees
- **August 27, 2024** - OIPA presentation at Director's Executive Team Meeting.
- **October 7, 2024** - OIPA emails all staff with both SR 125 investigations released and announces upcoming **staff outreach events on November 13th and 14th** on how the Whistleblower Hotline program works and to learn more about the OIPA.
- **October 10, 2024** - IPA presents remarks at SANDAG's agency-wide staff meeting regarding Whistleblower Program and upcoming OIPA staff outreach events.

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Meeting Performance Measures for Fiscal Year

Goal	Performance Measure	On Target	Exceeds	Actual
Continued Professional Education	100% of auditors adhere to professional certificate/licensing requirements and competency needs every two years and at least 40 hours annually.	90%	100%	100%
Percentage of planned engagements vs. number of engagements conducted	Ensure auditor utilization performance meets industry standards, with audit utilization being measured by the number of planned audits divided by the number of audits conducted. <i>IPA dropped timekeeping audit and assisting management with ERP controls due to other priorities and maintaining independence. Unplanned work included releasing 2 additional SR125 related investigations. Contracting Continuous Auditing Operational Process and System Control Review merged into Performance Audit of SANDAG's Contracts Invoicing and Payment Process released July 3, 2024.</i>	80%	85%	75%
Budgeted vs. actual audit hours per engagement	Complete audits in an efficient and effective manner, measured by the number of hours budgeted per audit vs actual hours expended per audit.	70%	80%	100%
Risk Assessment Participation	In preparation of the annual audit plan, the IPA offers and provides support that includes an annual risk discussion with the governing board, the audit committee, and executive team as part of consideration of risk. The IPA offers and supports providing training and outreach to SANDAG staff and Board members by way of classes and guidance on areas of system controls, best practices, and risk consideration.	70% participation	80% participation	73% participation
Percentage of OIPA's key goals achieved	<p><i>The Annual Audit Plan Revised Jan. 5, 2024, listed 4 strategic goals for FY 2024:</i></p> <ol style="list-style-type: none"> <i>Work directly with SANDAG's CEO and Deputy CEOs to identify areas where improvement is needed regarding policies, procedures, and system controls.</i> <i>Work directly with the Director of Technology on the development of the agencywide ERP system.*</i> <i>Continue to investigate areas of potential fraud, waste, abuse and mismanagement identified by SANDAG's employees, Board of Directors, CEO, Deputy CEOs, contractors and vendors.</i> <i>The IPA and OIPA staff will work to ensure that the Corrective Action Plans that are approved by the Board are implemented and within the stated dates.</i> <p><i>* This goal was determined to potentially impair OIPA's independence and was not pursued.</i></p>			75% of goals achieved

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Meeting Performance Measures for Fiscal Year

Goal	Performance Measure	On Target	Exceeds	Actual
Public transparency and accountability	The IPA ensures that the OIPA will work with Management to maintain an ongoing summary of all internal and external audits that are performed on SANDAG and the status of all Corrective Action Plans (CAPs). Additionally, the IPA will ensure that all CAPs relating to audits performed by the OIPA are reviewed and tested and that results are reported on a quarterly basis to the Audit Committee on posted to the OIPA website on an annual basis. Fraud, Waste, Abuse – The IPA ensures that the OIPA will provide an annual written report to the Audit Committee, Board, and post to the OIPA website that consists of all incidents reported via the Fraud, Waste, and Abuse website. Further, the IPA will, on a quarterly basis, give an update to the Audit Committee. The IPA ensures that there will be no intentional failures to post and there would be no public posting of disclosures by the IPA of information that is required, under law, to be kept confidential.	100%	100%	100%
Communication and relationship development	Maintain and further develop working relationships with management, while maintaining independence, so that the Office of the Independent Performance Auditor is viewed as a value-added part of the organization. The IPA will undergo an independent - 360 type performance review/survey. Participants will include professional peers, Board, Audit Committee Members, management, and staff of SANDAG. Based on an evaluation like the IPA's previous review performed by an independent consultant.	Not less than satisfactory or 70%	Exceeds 80%	Underway

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Questions?

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