



Audit Committee Agenda

Friday, October 11, 2024
2 p.m.

Welcome to SANDAG. The Audit Committee meeting scheduled for Friday, October 11, 2024, will be held in person in the SANDAG Board Room. While 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/87187392231>

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Public Comments: Members of the public may speak to the Audit Committee on any item at the time the 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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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, October 11, 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 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. 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 Auditor's activities and other sharing events.

Consent

+3. Approval of Meeting Minutes

Approve

Francesca Webb, SANDAG

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

[Meeting Minutes](#)

Reports

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

Recommend

Courtney Ruby, Independent Performance Auditor, Emilee Mullen, Associate Administrative Analyst, SANDAG

The Audit Committee is provided these reports as information and is asked to recommend that the reports be provided to the Board of Directors as information.

[OIPA Audit Rec Investigation and CAP Report FY 2024](#)

[OIPA FY 2024 External Audit Recommendation Compilation](#)

[June Audit Committee ACFR Follow Up](#)

[Audit Committee Memo - Updated Status of SR 125 Action Plan](#)

[FY23 SANDAG GAGAS Report](#)

- | | |
|--|-----------|
| +5. Office of the Independent Performance Auditor's Companion Investigation Reports to the State Route 125 Toll Operations Investigation
<i>Courtney Ruby, Independent Performance Auditor, SANDAG</i> | Recommend |
|--|-----------|

The Office of the Independent Performance Auditor will present these reports for information and discussion, and the Audit Committee is asked to recommend the reports be provided to the Board of Directors for information.

[OIPA SR 125 Toll Operations Companion Investigation](#)

[OIPA Whistleblower Investigation Report on SR 125 BOS Implementation](#)

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|---|------------------------------------|
| 6. Annual Performance Review for the Independent Performance Auditor
<i>David Zito, Audit Committee Chair</i> | Discussion
/ Possible
Action |
|---|------------------------------------|

In accordance with Board Policy No. 039, Sections 3.1.5 and 3.1.11, the Audit Committee is asked to discuss the process for the annual performance evaluation of the Independent Performance Auditor (IPA) against performance measures established and adopted by the Audit Committee. The period of review is for November 2023 to October 2024.

Adjournment

7. Adjournment

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

+ next to an agenda item indicates an attachment

October 11, 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

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 the 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 activities 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

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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.

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.

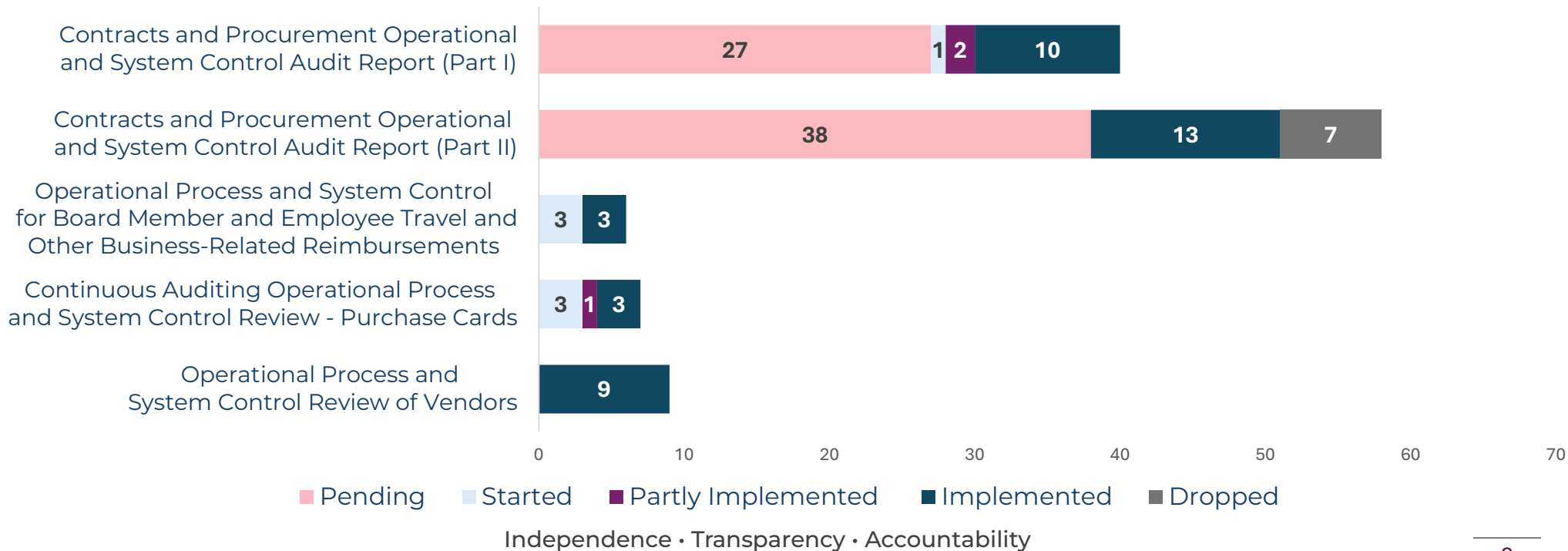
Summary of Audit Recommendations

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 ¹ 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>

¹ 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	The invoices referenced were made available by searching Accounts Payable.
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	

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	Dropped	N/A		Office of General Counsel	
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	Dropped	N/A		Office of General Counsel	
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	Dropped	N/A		Senior Director of Organization Effectiveness	
Recruit and hire staff that is qualified based on the applicable classification specification and is able to meet the needs of SANDAG.	8.5	Dropped	N/A		Senior Director of Organization Effectiveness	
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	Dropped	N/A		Senior Director of Organization Effectiveness	

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	12/31/2023	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	12/31/2023	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	12/31/2023	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.

SANDAG

OIPA

**Office of the Independent
Performance Auditor**

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.

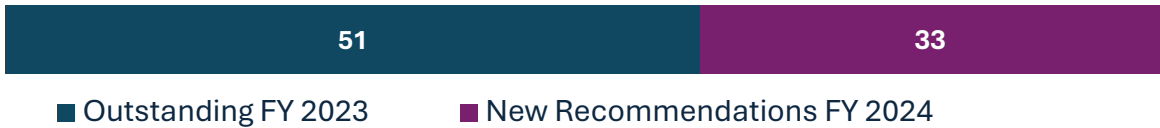
Implemented – The responsible party implemented the recommendation.

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.

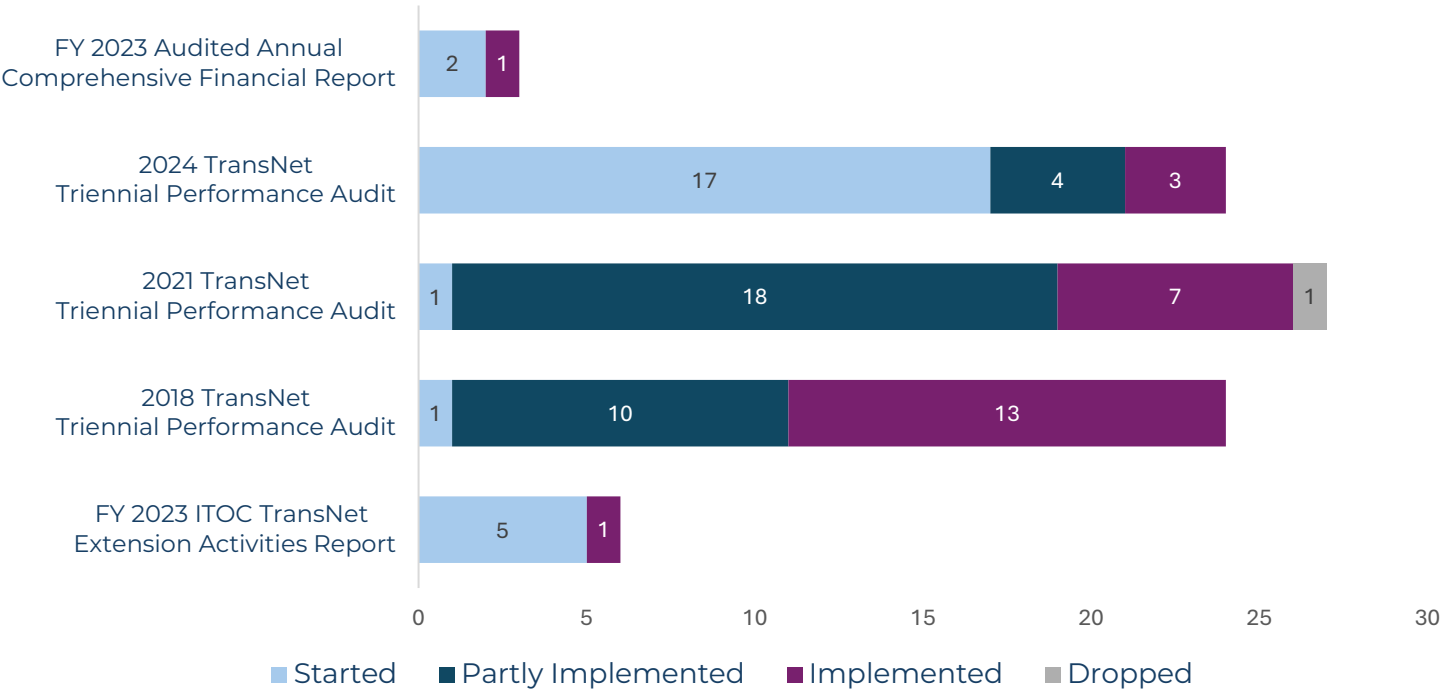
In Fiscal Year 2024, three (3) additional external audits were completed, adding a total of **33 new recommendations** for tracking.



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	Started	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	Partly Implemented	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	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.
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	Started	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	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 (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	Dropped	
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	Implemented	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	Partly Implemented	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	Partly Implemented	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	Partly Implemented	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	Partly Implemented	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	Implemented	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 ¹ 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.

¹ 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).



MEMO

Date: September 6, 2024 File Number 8000180

To: Audit Committee Members

From: Dawn Vettese, Chief Financial Officer *Dawn Vettese*

Subject: Updates from June Audit Committee Item No. 4. FY 2023 Audited Annual Comprehensive Financial Report (ACFR) and Other Financial and Compliance Audits

The FY 2023 Audited Annual Comprehensive Financial Report (ACFR) and associated financial reports and audits were presented to the Audit Committee at its June 7, 2024, meeting. Corrective action plans for the three findings in the FY 2023 ACFR were included in the report as [Attachment 6](#) (page 281). The Chair of the Audit Committee requested an update on the three findings at the next meeting; however, since the September Audit Committee meeting was canceled, we are providing this written update to address the follow-up questions.

1. How will the financial statement auditors be provided with timely year-end financial information to ensure the annual audit deadlines are met, and SANDAG's financial statements are issued on time this year?

Key accounting staff positions have been filled since the audit period last year.

- The Senior Accountant in the Toll Operations Accounting division was elevated to a Finance Manager and filled in January 2024 by a licensed Certified Professional Accountant with over 20 years of accounting and auditing experience.
- The Finance Manager responsible for the overall annual financial reporting process joined SANDAG in November 2023 and has over 20 years of local government accounting, including 15 years of experience delivering annual financial reports for government agencies.
- The new Director of Accounting and Finance joined SANDAG in May 2024 with over 20 years of local government finance experience, including the last two years as Chief Financial Officer for a City government with a \$900 million annual budget.

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. The timelines include milestones and build in adequate review time for the deliverables. We continually re-assess these milestones and adjust accordingly by shifting staff resources.

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. With support from the new CEO and CFO, 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.

The FY 2024 financial statements will incorporate activity from two accounting systems due to the implementation of a new system on January 1, 2024. As Finance staff are completing their annual tasks related to the audited financial statements, they are also reviewing and updating documentation of these processes. The Standard Operating Procedures (SOPs) for many year-end activities have changed with the implementation of the new accounting system and overall audit processes are being documented as a best practice to avoid loss of institutional knowledge with future staff turnover.

In addition, the new Finance Managers have implemented process improvements for our financial reporting to ensure data validation and reconciliation back to the new financial system. These additional controls are especially important this year because financial activity was recorded in two different financial systems with the transition to the new accounting system.

All of these improvements will assist with finalizing the audit to ensure that the financial statements are issued in a timely manner.

2. How will SANDAG's books be properly reconciled and closed to ensure the number of adjusting journal entries is significantly reduced from the 26 entries that were required in this past year's audit?

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. Milestones have been established to gauge progress and leverage existing resources to meet demands. 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.

Various controls within different processes are also being implemented to ensure errors are detected in a more timely manner. For instance, several different checks were implemented to ensure that accruals and payments are accurate for financial reporting. We made improvements to our year-end AP process, increased training across the agency, and incorporated checks with several different data points.

We reviewed the cumulative list of all FY 2024 invoices received after the deadline to determine if any significant transactions should be accrued. During fieldwork, these missed transactions will be communicated to the auditors to ensure that we do not receive a finding. By proactively communicating these transactions that did not meet our accrual threshold to our auditors for their concurrence, we will eliminate the risk of receiving a finding related to those transactions.

The added accounting expertise from the new Finance Managers provides the opportunity for additional staff training on best practices and improvement of SOPs. Additional controls within different processes have also been identified to ensure General Ledger data integrity.

In FY 2025, new ERP system has a month end manager program that can be used to ensure accounting entries are posted in a timely manner.

3. What steps is SANDAG taking to address the requirements mentioned by Jennifer Farr to return to an unqualified opinion in the future:
 - Internal and external investigations concluded with all identified issues resolved.
 - No reconciliation errors between tolling system reports and accounting system reports.
 - System of internal controls to ensure errors are detected timely and reconciliations are performed regularly.
 - Ongoing testing of tolling system reveals no system errors.

The timeline for investigations is outside of SANDAG's control. Once the investigations are complete, staff will respond promptly with action plan(s) to resolve any identified issues.

That said, SANDAG has implemented a system of internal controls and ongoing testing to ensure there are no ongoing reconciliation or system errors between the tolling and accounting system reports.

- We continue to work with our back-office software provider and external consultants to build out reporting items and to troubleshoot and resolve issues in a timely manner.
- Our teams meet weekly to review toll transactions, billings to customers, and resolve accounting related items. Progress-to-date has reduced variances between the current back-office system and the accounting records.
- The Toll Operations and Finance Departments have undertaken a major review of the Toll Back Office System to identify and coordinate any necessary data fixes with the BOS system provider. As the fixes are implemented, the Toll Operations accounting team is systematically reviewing the impact to financial reporting to ensure there are no system errors. By implementing the data fixes in the BOS, the reporting variances between the two system are reduced.
- A replacement of the back-office system is underway and daily reconciliations between the Kapsch roadside system and the back-office system are being made to ensure errors are detected and addressed in a timely manner.
- We are analyzing the Toll Operations Account Receivable balances to consider writing off old uncollectible accounts and will be bringing an update to the Board on this item.

As part of annual financial audit, Davis Farr will review this progress and as an independent auditor will use their own risk assessment to determine the appropriate audit opinion.

Thank you for the opportunity to provide this interim update. We look forward to future dialogue to continue efforts to improve and strengthen the agency.



MEMO

Date: September 13, 2024

File Number 8000180

Memo to: Audit Committee

From: *Dawn Vettese*
Dawn Vettese, Chief Financial Officer

Subject: Correction to September 6 Memo - June Audit Committee Follow Up

In my September 6 memo to you, I stated the following within the response to question 3:

- A replacement of the back-office system is underway and daily reconciliations between the Kapsch roadside system and the back-office system are being made to ensure errors are detected and addressed in a timely manner.

It is now my understanding that the reconciliations of transactions themselves are not yet occurring daily. Please accept my apology for the confusion. What is occurring is as follows.

The Kapsch Trip Summary Report is run daily for the three days prior to capture the completed transactions that are sent to the ETAN system. Subsequently, the ETAN database is being reviewed to confirm that the daily Kapsch transactions have been received. Staff then confirms the transactions and this happens generally every two to three days. ETAN also monitors the receipt of trips from Kapsch to assure the data is flowing. If trip data is not received, ETAN reaches out to Kapsch with a copy of the notification to SANDAG staff. During the weekly SANDAG/ETAN Project Status meetings, ETAN provides an update on the trip and image backlog based on their monitoring of the two systems which is an indicator of the data received from the roadside and the BOS processing timeline. Using the Kapsch Trip Summary Report, Finance staff prepares a daily analysis comparing trips and revenue to the previous month, the last 60 days, and the same period a year ago.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Honorable Chair and Members of the Board of Directors
San Diego Association of Governments
San Diego, California

Independent Auditor's Report

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of San Diego Association of Governments (SANDAG), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise SANDAG's basic financial statements, and have issued our report thereon dated March 28, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SANDAG's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SANDAG's internal control. Accordingly, we do not express an opinion on the effectiveness of SANDAG's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the issues identified below as 2023-001, 2023-002 and 2023-003 to be material weaknesses.

(2023-001) Adjustments Detected During the Audit

During our audit, we identified material errors in the accounting records that required correcting and adjusting journal entries as follows:

- To record unavailable revenue of \$7M in the fund financial statements related to receivables not collected within the availability period,
- To increase interest payable by \$5.1M related to the 2021 TIFIA Loan, and
- To record assets of \$17.7M and liabilities of \$21.5M related to the interest rate swap termination activities.
- To correct escrow retention cash balance to account for the release of funds of \$6.4M in the capital projects fund.
- To correct negative receivables in the general fund for \$1.8M.
- To increase the allowance for doubtful accounts in toll penalties in the SR-125 fund for \$500K based on SANDAG staff calculations.

Potential Effect

The financial statements could be materially misstated if year-end adjustments are not recorded, and amounts are not reconciled to the subsidiary records.

Recommendation

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.

Management's Comments Regarding Corrective Actions Planned

Due to staff turnover and the implementation of a new ERP system, the year-end close process was delayed, causing adjustments to the financials towards the end of the audit. However, management will have a more robust review process with the new ERP system for the upcoming audit years. SANDAG relies on third-party asset management services to provide derivative data that will make the year-end process efficient. However, there was extra discussion needed to reconcile the reports that were provided and how they should be reflected in the financial statements regarding swap terminations. Accounting for derivative transactions such as swap terminations are complex and unusual and require more time and resources. SANDAG will continue to promote continued educational opportunities to be better prepared in the future.

(2023-002) Toll Road Back-Office System Errors

SANDAG operates a Toll Road on State Route 125 (SR 125) and reports the activities in a major fund in SANDAG's financial statements. Due to the implementation of a new

back-office system, there were difficulties in reconciling certain accounting records to the underlying customer accounts. Additionally, due to SANDAG's ongoing efforts to further evaluate these accounts and the conclusions reported in the March 25, 2024 SANDAG Office of the Independent Performance Auditor's Report on SR 125 Toll Operations, we were unable to obtain sufficient appropriate audit evidence supporting the balances reported in the fund financial statements (\$38,768,057 of SR 125 Toll Road revenue, \$4,395,742 of accounts receivable, and \$2,138,678 of unearned revenue). Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Potential Effect

The financial statements and customer account balances could be misstated.

Recommendation

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.

Management's Comments Regarding Corrective Actions Planned

We continue to work with our back-office software provider and external consultants to build out reporting items and to troubleshoot and resolve issues timely. Our teams meet weekly to review toll transactions, billings to customers and resolve accounting related items. Additionally we have signed a new agreement with Deloitte to implement a new back-office software. Once implemented SANDAG believes that will resolve the difficulties in the SR125 financial reporting.

(2023-003) Preparation of the Schedule of Expenditures of Federal Awards

2 CFR 200.508 requires that proper internal controls are in place for the preparation of the Schedule of Expenditures of Federal Awards (SEFA) which must include the total federal awards expended and the Assistance Listing Number for each individual federal program. The auditors are required to determine whether the SEFA is stated fairly in all material respects in relation to the auditee's financial statements as a whole. The auditors also utilize the SEFA for the determination of the major federal programs that will be audited.

Condition During our audit, we became aware of a material misstatement in the SEFA due to an excluded federal program: the Transportation Infrastructure Finance and Innovation Act (TIFIA) Program with federal expenditures of \$537,484,439 for the fiscal year ended June 30, 2023.

Effect As a result of correcting the error in the SEFA, the TIFIA program was assessed for testing as a major program and met the criteria to require the program to be tested. Additionally, another major program that had already been selected and tested no longer was required to be tested as a major program.

Cause The TIFIA program expenditures were new in the fiscal year ended June 30, 2023 and SANDAG's system of internal controls did not identify the program as federal expenditures subject to the single audit requirements.

Recommendation 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.

Management's Comments Regarding Corrective Actions Planned

We concur with the issue, and accept the recommendation provided by the auditor. We will strengthen the system of internal controls for identifying federal awards and expenditures, including TIFIA funds and the associated reporting requirements which are subject to single audit inclusion.

The following matter is not considered material weakness or significant deficiency in internal controls. However, as a service to you, we offer the following best practice recommendation to enhance internal controls of SANDAG:

(1) Information Systems Enhancements and Controls

As part of the annual financial statement audit, a Certified Information Systems Auditor performed a risk assessment summary on the information technology environment and systems. As a result of the review, we have the following best practice recommendations:

a. Password management

SANDAG should implement stronger password controls for its users. Specifically, SANDAG's password current requires a minimum 8-character password and password changes are required every 180 days.

Recommendation

As a best practice, we recommend SANDAG implement an increase in the password length requirement to be greater than 8 alphanumeric characters and consider increasing the password change frequency to decrease the risk of an account being compromised.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether SANDAG's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

SANDAG's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on SANDAG's response to the findings identified in our audit and described above. SANDAG's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Davis Lane" followed by a stylized flourish.

Irvine, California
March 28, 2024

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

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 Team¹ and Board

¹ 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 OME² 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.

² 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 ETAN³).

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.

³ 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 management⁴ 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

⁴ 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 OME⁵. 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.

⁵ 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.

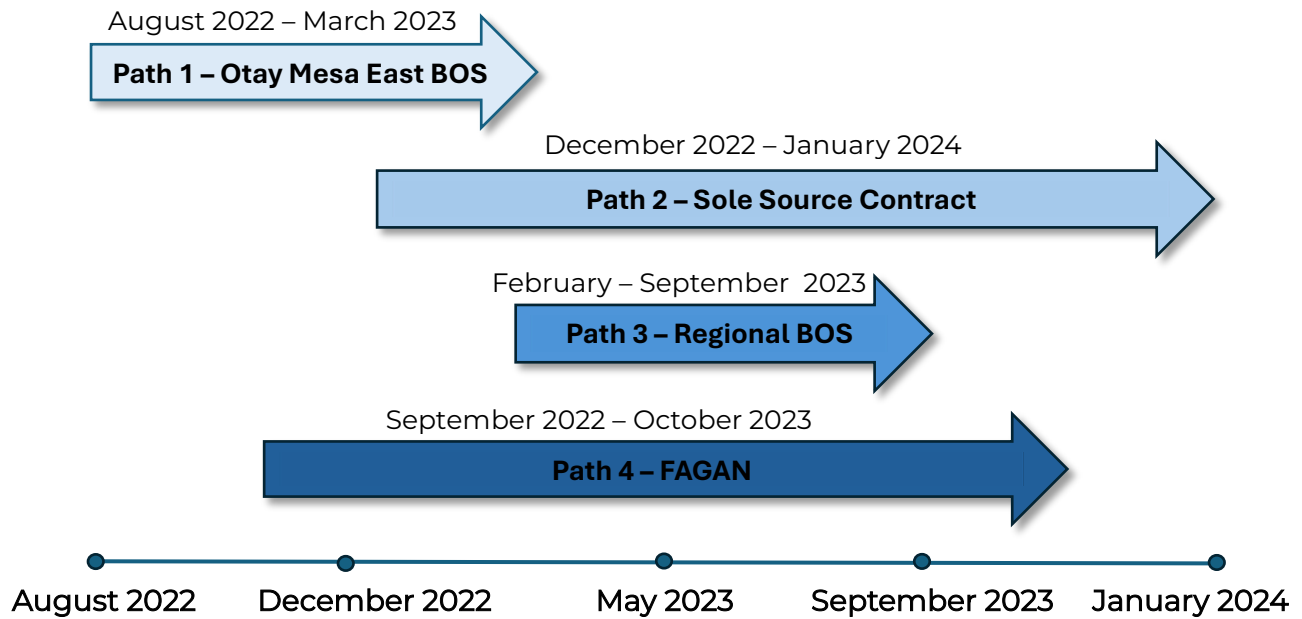
Therefore, four paths emerged to address the impacts of ETAN's significant performance issues. Some of these paths occurred simultaneously while management continued to work with ETAN. The four paths are as follows:

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 Committee⁶ (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:

⁶ 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: (2nd 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

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, accounting¹ 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

¹ 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 System²).”

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.

² 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