



Audit Committee - Special Session Meeting Agenda

**Thursday, July 11, 2024
1 p.m.**

Welcome to SANDAG. The Audit Committee meeting scheduled for Thursday, July 11, 2024, will be held in person in the SANDAG Board Room. While Audit Committee members will attend in person, members of the public will have the option of participating either in person or virtually.

For public participation via Zoom webinar, click the link to join the meeting: <https://us02web.zoom.us/j/89758213049>

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

Persons who wish to address the members on an item to be considered at this meeting, or on non-agendized issues, may email comments to the Clerk at clerkoftheboard@sandag.org (please reference AC 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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Безкоштовна мовна допомога | sandag.org/LanguageAssistance | (619) 699-1900

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Vision Statement: *Pursuing a brighter future for all*

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

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

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

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

Audit Committee

Thursday, July 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 Performance 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 June 7, 2024, meeting.

[Meeting Minutes](#)

Reports

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

Approve

Courtney Ruby, Independent Performance Auditor

The Audit Committee is asked to review and approve the proposed FY 2025 Audit Plan and recommend it to the Board of Directors for ratification.

[OIPA - FY 2025 Annual Audit Plan](#)

[Att. 1 - OIPA Annual Audit Plan Fiscal Year 2025 Final](#)

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

Recommend

Courtney Ruby, Independent Performance Auditor, Doug D'Pete, Principal Independent Performance Auditor

The Office of the Independent Performance Auditor will present the Annual Investigations Report (Report), and the Audit Committee is asked to recommend the Report be provided to the Board of Directors for information.

[OIPA - FY 2024 Annual Investigations Report](#)

[Att. 1 - OIPA FY2024 Annual Investigations Report Final](#)

[Supporting Materials](#)

**+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.**

Discussion

+6A. Performance Audit of SANDAG's Contracts Invoicing and Payment Process
Courtney Ruby, Independent Performance Auditor

The Independent Performance Auditor and OIPA staff will present 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.

[Audit Report - Invoicing Payment Audit Final](#)
[Supporting Materials](#)

+6B. Management's Response and Corrective Action Plan
Kelly Mikhail, Kimberly Trammel, SANDAG

Management will present their response and proposed corrective action plan.

[OIPA Invoice and Payment Audit - Mgmt Response Letter](#)
[OIPA Invoice and Payment Audit - Mgmt Action Plan](#)

7. Adjournment

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

+ next to an agenda item indicates an attachment

July 11, 2024

June 7, 2024, Meeting Minutes

[View Meeting Video](#)

Chair David Zito (Board Member) called the meeting of the Audit Committee to order at 9:02 a.m.

1. Non-Agenda Public Comments/Member Comments

Public Comments: 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: The Original Dra.

Action: Information.

Consent

3. Approval of Meeting Minutes

The Audit Committee was asked to approve its May 3, 2024, meeting minutes.

Public Comments: Truth.

Action: Upon a motion by Chair Zito, and a second by Agnes Wong Nickerson (Public Member), the Audit Committee voted to approve the minutes from its May 3, 2024, meeting.

The motion passed.

Yes: Chair Zito, Vice Chair Dave Druker (Board Member), and Agnes Wong Nickerson.

No: None.

Abstain: None.

Absent: Shawnee Pickney-Forrest (Public Member) and Rowena Dorsey (Public Member).

Reports

4. FY 2023 Audited Annual Comprehensive Financial Report and Other Financial and Compliance Audits

Jennifer Farr, Davis Farr LLP, and Director of Accounting and Finance Kimberly Trammel presented an overview of the FY 2023 Annual Comprehensive Financial Report and other matters in compliance with the Statement of Auditing Standards 114.

Public Comments: The Original Dra.

Action: Information.

5. Office of the Independent Performance Auditor's Preliminary FY 2025 Annual Audit Plan Process

Independent Performance Auditor Ruby presented the Preliminary FY 2025 Annual Audit Plan.

Public Comments: The Original Dra.

Action: Discussion.

6. Adjournment

The next Audit Committee meeting is a special meeting scheduled for Thursday, July 11, 2024, at 1 p.m.

Chair Zito adjourned the meeting at 10:38 a.m.

DRAFT

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	No
Public Member	Agnes Wong Nickerson	Primary	Yes
Public Member	Rowena Dorsey	Primary	No
Board Member	Ed Musgrove	Alternate	Yes

July 11, 2024

Office of the Independent Performance Auditor – FY 2025 Annual Audit Plan

Overview

In accordance with Assembly Bill 805 (Gonzalez, 2017) and Board Policy No. 039: Audit Policy and Advisory Committee and Audit Activities (Board Policy No. 39), Section 3.1.7, The Independent Performance Auditor (IPA) will prepare a final audit plan for discussion and approval. The IPA will present this annual audit plan for Fiscal Year 2024-25 (FY 2025) for approval.

Key Considerations

To fulfil this mandate, the Office of the Independent Performance Auditor (OIPA) conducts an annual risk assessment to inform the areas to be audited in the coming year. This process includes identifying, evaluating, and prioritizing key risks to develop an effective and impactful audit work plan. The proposed annual audit plan for FY 2025 goes through the steps involved in the risk assessment process, which informed and produced the proposed annual audit plan. The Audit Committee is asked to review and approve the proposed audit plan and recommend it to the Board of Directors for ratification.

Next Steps

The recommended FY 2025 Annual Audit Plan will be presented to the Board on July 12, 2024, for consideration and ratification. Once the plan is adopted, it will be published on OIPA's website.

Courtney Ruby, Independent Performance Auditor

Attachment: 1. OIPA FY 2025 Annual Audit Plan

Action: **Approve**

The Audit Committee is asked to review and approve the proposed FY 2025 Audit Plan and recommend it to the Board of Directors for ratification.

Fiscal Impact:

Potential Fund Recovery

Schedule/Scope Impact:

None



Annual Audit Plan

Fiscal Year 2025

SANDAG

OIPA

**Office of the Independent
Performance Auditor**

Message from the Independent Auditor

I am pleased to present the Office of the Independent Performance Auditor's (OIPA) Audit Plan for Fiscal Year 2024-25 (FY25) in accordance with California Assembly Bill 805 (AB 805) and SANDAG Board Policy No. 039: Audit Policy Advisory Committee and Audit Activities. Board Policy No. 039, Section 6.4, states the independent performance auditor shall annually prepare an audit plan, based upon the results of the risk assessment, and conduct audits in accordance therewith.

To fulfill this mandate, OIPA conducts an annual risk assessment to inform the areas to be audited in the coming year. This process includes identifying, evaluating, and prioritizing key risks to develop an effective and impactful audit plan. The following pages go through the steps involved in the risk assessment process and conclude with the proposed Audit Plan for FY25.

Next year, the annual risk assessment process will be expanded to include an opportunity for all SANDAG project managers to have a risk interview with OIPA, surveys for broader staff and public involvement, and guiding the Executive Team and Directors through a focused risk assessment process to assist in identifying departmental risks.

I want to thank the Board of Directors and Audit Committee members who participated, and SANDAG's Executive Team and Department Directors for entrusting me with your concerns and sharing your ideas during this year's annual risk assessment process. The effectiveness of this process is dependent upon open and honest communication with key stakeholders in addition to the OIPA's analysis of the risks surrounding SANDAG.

Sincerely,



Courtney Ruby CPA, CFE
Independent Performance Auditor

Office of the Independent Performance Auditor

California Assembly Bill 805 (AB 805) enacted in January 2018 created the Office of the Independent Performance Auditor (OIPA) and the Audit Committee that appoints the Independent Performance Auditor (IPA), and to whom the IPA reports. SANDAG Board Policy No. 039 - Audit Policy Advisory Committee and Audit Activities specifies the functions of the Independent Performance Auditor and the SANDAG Audit Committee, which assists the Board in fulfilling its oversight responsibilities.

The OIPA serves as the SANDAG Board of Directors' oversight function that objectively evaluates and recommends improvements to SANDAG operations. The OIPA prioritizes its efforts through an annual objective risk assessment and by continually monitoring concerns and trends from the Whistleblower Hotline.

Per AB 805, the OIPA has the authority to conduct performance audits of all departments, offices, boards, activities, and programs of the consolidated agency.

The OIPA is also the official body of SANDAG to investigate allegations of potential fraud, waste, abuse, and gross mismanagement identified by SANDAG staff or other stakeholders.

The OIPA conducts performance audits in accordance with [Government Auditing Standards](#) (GAGAS) set by the Government Accountability Office under the U.S. Comptroller General.

What the OIPA Produces

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.

In addition to performance audits, the OIPA conducts:

- **Annual reports.** The OIPA prepares and issues annual reports to summarize audit and investigative activities performed by the OIPA. Additionally, an annual Corrective Action Plan is produced to track the implementation status of all OIPA recommendations.
- **Investigations.** The OIPA operates a Whistleblower Hotline to receive and investigate allegations of fraud, waste, abuse, and gross mismanagement, affecting or involving SANDAG resources, employees, officials, or contractors. Investigations are also initiated directly by the IPA, or upon request by the SANDAG Board of Directors and Audit Committee.
- **Corrective Action Plan follow-up reports.** The OIPA regularly reports on the status of recommendations from previous audits.
- **Special requests.** The OIPA, based upon available resources, may conduct special analyses and reviews requested from the SANDAG Board of Directors, Audit Committee or Management.

Strategic Goals for Fiscal Year 2025

The strategic goals for the OIPA include those actions which will directly contribute to improving SANDAG by promoting efficiency and accountability throughout the Agency. These clearly defined goals incorporate planned audits, targeted risk management, timely recommendation follow-up, and the identification, reduction, and deterrence of fraud, waste, abuse, and gross mismanagement.

Goal #1 – Policy, Process Improvements, and System Controls

- Conducts performance audits focused on high-risk areas where improvements will create needed organizational change and address systemic issues impacting operations.

Goal #2 – Detection and Deterrence of Fraud, Waste and Abuse

- Perform timely investigations in the areas of fraud, waste, abuse, and gross mismanagement. Prioritize resources based upon potential impact to the organization, the public, and stakeholders.

Goal #3 – Enhancement of the Whistleblower Hotline Program

- Educate all SANDAG employees and governing body on the OIPA's Whistleblower Hotline Program including Whistleblower protection from retaliation.
- Develop contractor outreach campaign.

Goal #4 – Development and Monitoring of Corrective Action Plans

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

Performance Measures

These performance measures are designed to evaluate the IPA's effectiveness in meeting the legislated mandate, including producing quality impactful work; maintaining and developing a professional audit team; and conducting work independently while maintaining professional and respectful working relationships with auditees, management and the governing body.

IPA Performance Measure	Target
PRODUCTIVITY / INCREASED WHISTLEBLOWER HOTLINE PROGRAM AWARENESS	
Audit/Investigation Reports per auditor	1.5
Budgeted vs. Actual audit hours per engagement	70%
Increase Whistleblower Hotline reporting (cases received) over prior year	50%
Employee Whistleblower Hotline education and outreach events	3
TRANSPARENCY AND ACCOUNTABILITY	
The status of Corrective Action Plans (CAP)s in response to the OIPA's audit findings and recommendations will be verified and reported to the Audit Committee on an annual basis. Periodic verbal updates will occur at the Audit Committee.	100%
The IPA will work with Management to maintain a summary of all SANDAG internal and external audit recommendations to be included in the annual CAP report.	100%
LEADERSHIP	
Percentage of strategic goals achieved	90%
Foster collaborative, respectful, and productive working relationships with auditee, SANDAG Board, Audit Committee, management, and staff. <i>A 360-type performance review/survey will be conducted to include, at a minimum, auditees, management, governing body and staff of SANDAG, and may include external stakeholders. Survey tool will calculate % score.</i>	75%
STAFF DEVELOPMENT	
Auditors will adhere to professional certification and licensing requirements, completing no less than 40 annual hours of continuing education.	100%
Increase specialized audit and investigations expertise within the OIPA. 50% of audit team to participate in specialized training in contracting and investigations.	50%

Risk Assessment Process

The risk assessment process is used to detect, evaluate, and prioritize prospective audits based on the level of risk presented to the organization. Identifying risks as potential barriers to achieving SANDAG's strategic goals and objectives will aid in narrowing the target of audits. Risk-based audit plans serve to direct limited auditing resources to perform evaluations of controls, ensure risks are managed to acceptable levels, and evaluate the success of individual departments, programs, and initiatives in meeting their goals and mandates.

Prioritizing Performance Audits

The IPA must carefully consider many factors when deciding what audits to prioritize, and how to best use limited agency resources. To do this, the IPA must consider:

- **Board of Directors, Audit Committee Members, Department Directors, public, employee, and other stakeholder concerns.** The IPA prioritizes concerns raised by key stakeholders.
- **Existing or Emerging Risks.** The IPA plays a critical role in identifying ways SANDAG can effectively meet its mission and knowing the risks that impede success are critical. These include:

External Risks

- *Political* - Alterations to financial projections due to unanticipated budgetary changes at the federal/state level.
- *Economic* – Impacts to budgets or services due to inflation, high interest rates, or increases in service demand.
- *Social* – Population trends (age distribution, income disparities) that may impact service demand and delivery.
- *Technological* – Ability to keep up with costs and security risks associated with rapidly changing adopted technology.
- *Legal/Compliance* – Changes to regulations via federal/state legislation, pending litigation, or accepted best practices.
- *Environmental* – Climate change, natural disasters, changes in resource consumption.

Internal Risks

- *Capital* – Errors or malfeasance resulting in loss or theft of funds, equipment, property, or other assets.

- *People* – Inability to quickly hire qualified staff, poor management of existing personnel, high turnover.
- *Process* – Lack of adequate policies/procedures; resource inefficiency.
- *Technology* – Aging systems, lack of interfaces, etc.
- **Fiscal Impact.** SANDAG cannot deliver its multitude of regional programs and initiatives without sufficient financial resources. Accordingly, the IPA prioritizes audits which may identify ways to improve the agency's financial and/or budgetary position.
- **SANDAG Program and Resource Delivery.** The IPA prioritizes audits pertaining to core SANDAG responsibilities as a metropolitan planning organization, regional transportation and fund allocation agency, TransNet administrator, and regional toll authority. Factors that weigh heavily in the consideration of an audit may include:
 - Recent departmental changes, number of budgeted full-time equivalent employees, and/or high employee turnover.
 - Number and/or technological complexity of mission critical information system functions within a given department.
 - Past audit findings and recommendations.

In addition to the factors above, the IPA must consider:

- **Urgency.** Prioritize proposed audits that involve urgent matters over those that are less time sensitive.
- **Available Resources.** Consider the availability of OIPA resources, including staff capacity, qualifications, skills, and time needed to conduct proposed audits.
- **Duplication of Efforts.** Coordinate audit functions such that there is no duplication of effort between the audits undertaken by the OIPA and audits/assessments undertaken by other parties.

Lastly, the IPA is responsible for reviewing the annual audit plan each quarter to ensure performance measures, goals, and auditing/investigative activities are on track to meet the approved plan. When necessary, the IPA will propose audit plan revisions to the Audit Committee.

The flexibility of the audit planning process as designed also allows for unplanned engagements at the request of the IPA, Board of Directors, Audit Committee, and management, and in response to fraud, waste, abuse, and complaints of gross mismanagement.

Fiscal Year 2025 Audit Plan

The Audit Plan includes projects already in process, and those that will begin in FY25, based on the above framework described in the “Prioritizing Performance Audits” section.

The number of planned audits is based on an assumed rate of 1.5 audits per auditor¹ per year, with an average of two auditors assigned to each audit.

Audits Currently in Process and Anticipated to Be Completed in FY25

- HNTB: Evaluate if there was sufficient oversight over contractor and provided by contractor, and if SANDAG complies with established contracting requirements and models best practices

OIPA’s Required Annual Work to be Completed in FY25

- *Annual Recommendation Follow-up
(Status of Management’s Corrective Action Plans)*
- *Annual Investigations Report*
- *Annual Risk Assessment and Proposed Audit Plan*

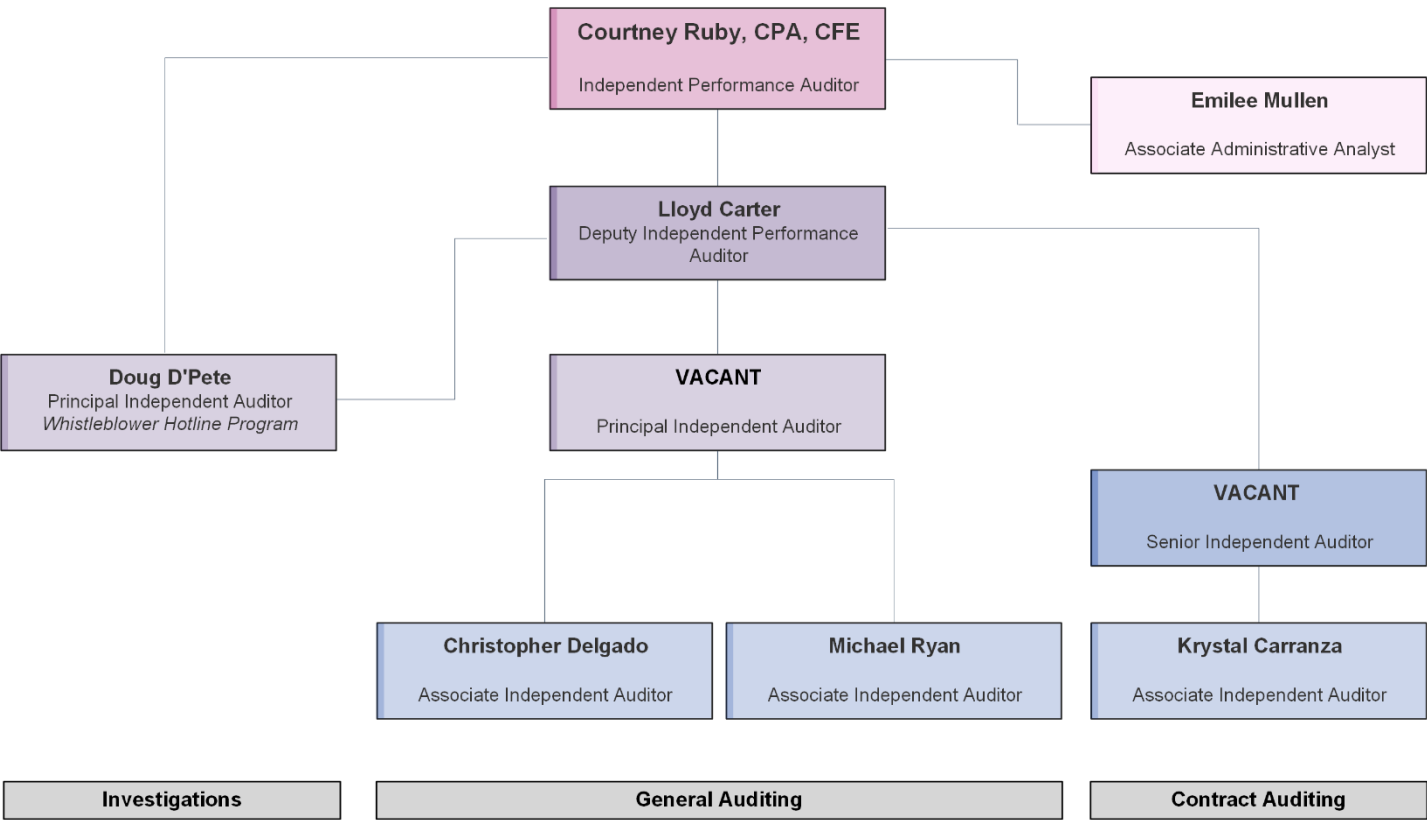
Priority Audits/Reports to Launch in FY25

- *Independent Assessment of Finance Department (Contracted)*
- *Sole-Source Procurement Process*
- *Ethical Climate Survey*
- *Administration of Bike Program – EAP: Early Action Plan*
- *Talent Management – Workforce Planning and Succession Management*
- *Departmental Risk Assessment*
- *Project Management: Internal Projects and Capital Projects*
- *Anticipate Issuing Four (4) Investigation Reports*

There are more audit topics considered for the upcoming fiscal year than resources available. For a list of all audit topics considered see Appendix C: Potential Audit Topics Considered.

¹ The FTE count included the following adjustments, both the IPA and Deputy IPA are counted as .5 due to supervisory and administrative responsibilities. In addition, the OIPA is recruiting for 2 new audit positions and these will be included as .5 FTE in this calculation to account for hiring lead time and productivity ramping up time.

Appendix A: About OIPA



Structure

- The Independent Performance Auditor (IPA) is appointed by the Audit Committee to a 3-year, renewable term subject to approval by the SANDAG Board of Directors and reports directly to the Audit Committee.
- Courtney Ruby was appointed IPA in November 2023.
- The OIPA currently has 9 FTE positions:
 - 6 Auditors
 - 1 Administrative position
 - 2 Auditor vacancies currently in recruitment²
- Staffing is expected to increase to **13 FTE positions by FY 2027**.

² Principal and Senior Independent Auditor positions have been advertised and are expected to be filled by late summer.

Responsibilities

The OIPA serves as the SANDAG Board of Directors' oversight function that objectively evaluates and recommends improvements to SANDAG operations. OIPA prioritizes its efforts through an annual objective risk assessment and by continually monitoring concerns and trends from the Whistleblower Hotline.

The OIPA has the authority to conduct performance audits of all departments, offices, boards, activities, and programs of the consolidated agency.

The OIPA is also the official body of SANDAG to investigate allegations of potential fraud, waste, abuse, and gross mismanagement identified by SANDAG staff or other stakeholders.

Compliance with Government Auditing Standards (GAGAS)

Audit organizations performing audits in accordance with GAGAS must have an external peer review performed by independent reviewers at least once every three years. This review determines whether the audit organization's internal quality control system is adequate, and whether its policies and procedures are complied with to provide reasonable assurance that it conforms with GAGAS.

The OIPA's last external peer review was issued on June 3, 2022. The scope of the review was July 1, 2020, through May 31, 2022. The OIPA received the highest rating of "Pass" with no deficiencies found in its system of quality control. The review found that the OIPA's quality control system was suitably designed and complied with to provide reasonable assurance of performing and reporting in conformity with GAGAS.



SANDAG

OIPA

Office of the Independent
Performance Auditor

Whistleblower Hotline

Online

[Complaint Form](#)

Phone

(619) 595-5386

Email

cruby.ipa.oipa@gmail.com

Whistleblower Hotline Program

The OIPA investigates allegations of fraud, waste, abuse and gross mismanagement identified by agency staff or other stakeholders.

Whistleblower complaints are reviewed to determine:

- If they involve SANDAG property, infrastructure, employees, officials, contractors, or otherwise fall within the OIPA's jurisdiction.
- If they meet the criteria of fraud, waste, abuse or gross mismanagement.
- If the events in question occurred within the past year.
- If sufficient information was provided to initiate an investigation.
- If the events are currently being litigated

A whistleblower's personal information will remain confidential during and after the investigation to ensure their rights are protected; it will only be disclosed if necessary to appropriate government officials or law enforcement.

Whistleblowers may submit information anonymously and are protected from retaliation pursuant to California Labor Code Section 1102.5.

Annual Audit Plan

Fiscal Year 2025

SANDAG

OIPA

Office of the Independent
Performance Auditor

Budget

OPIA expenses are allocated across projects in the Overall Work Program (OWP), regional operations and services, and capital budgets based on direct labor dollars charged to each project and funded accordingly.

FY 2025 Office of the Independent Performance Auditor

Budget³

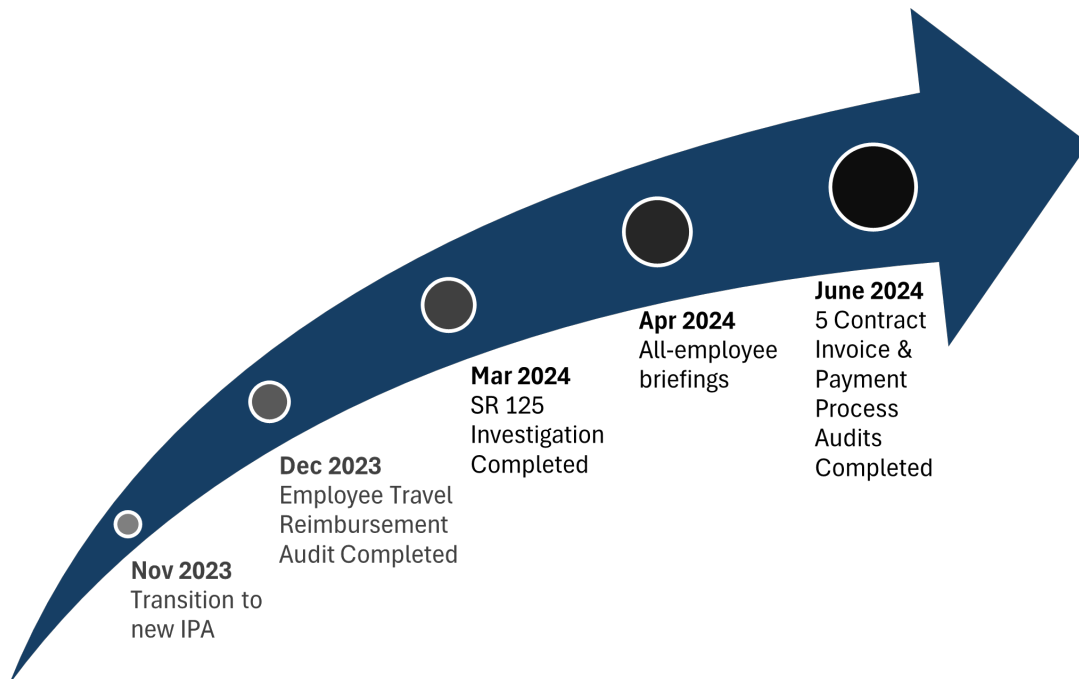
	FY 2023 Actual Budget	FY 2024 Budget	FY 2025 Budget	% of Non- Personnel Costs	Annual % Change
Personnel					
Salaries and Benefits	\$1,160,547	\$1,334,374	\$2,085,898	-	56.3%
Subtotal Personnel	1,160,547	1,334,374	2,085,898	-	56.3%
Non-Personnel					
Memberships and Publications	9,039	7,000	7,000	18.6%	0.0%
Training Program	700	30,600	30,600	81.4%	0.0%
Subtotal Non-Personnel	\$9,739	\$37,600	\$37,600	100.0%	0.0%
Total Budget	1,170,286	1,371,974	2,123,498		54.8%
Less: Items Funded with Other Sources	-	-	-	-	0.0%
Indirect Costs to be Allocated	\$1,170,286	\$1,371,974	\$2,123,498	-	54.8%

³ Items Funded with Other Sources funded with Member Assessments, TransNet Administration, and TransNet/FasTrak® swap in FY 2021 and FY 2022. Beginning in FY 2023, indirect costs associated with OIPA are spread throughout the agency's projects.

Appendix B: FY 2024 Accomplishments

In November 2023, the Office of the Independent Performance Auditor transitioned to the leadership of Independent Performance Auditor, Courtney Ruby.

- Investigation Report on SANDAG's State Route 125 Toll Operations:
 - Investigation completed on accelerated, three-month timeline.
 - Identified Seven (7) findings including ETAN's Fastlane financial reporting cannot be relied upon and the Finance department lacks adequate internal controls, including proper review and supervision, to ensure SR 125 financial information is accurately recorded and reported.



- Expansion of OIPA with an enhanced focus on the Whistleblower Program, continued focus on SANDAG contracting processes, and commitment to employee and stakeholder outreach.
 - Added Principal Independent Auditor, Senior Independent Auditor, and Associate Administrative Analyst positions.
 - Two (2) additional auditors received certification from the Association of Certified Fraud Examiners (ACFE).

- Operational Process and System Control Audit for Board Member and Employee Travel and Other Business-Related Reimbursements for the Period of July 1, 2020, through May 31, 2023.
 - Two (2) findings and six (6) recommendations issued.
 - Management committed to standardizing request forms and ensuring guidelines for employee business travel were updated.
- Continuous Auditing Operational Process and System Control Review – Purchase Cards for the period of March 1, 2022, to April 22, 2023.
 - Two (2) findings and seven (7) recommendations issued.
 - Management committed to developing additional P-card training and reviews.
- Performance Audit of SANDAG’s Contracts Invoicing and Payment Process for the Audit Period of July 1, 2019, to June 30, 2023.
 - Invoices sampled from five (5) contractors previously identified in the Operational Process and System Control Review – Contracts and Procurement Audit Part I issued in October 2022.
 - Four (4) findings and seven (7) recommendations issued.
 - Many of the findings and recommendations aligned with those previously issued in the Contracts and Procurement Audit Parts I and II.

Appendix C: Potential Audit Topics Considered

As noted above, the OIPA identifies more high-risk audit areas than we can conduct given limited resources. The following is the potential audit topics considered for the upcoming fiscal year from all sources, in no particular order, including those from internal reviews, risk assessment discussions, board requests, staff requests/concerns, continuing audits, and operational concerns submitted via the Whistleblower Hotline Program.

Staff Travel	I-5 / SR 78 Interchange Project
Records Management	Agencywide Risk Management
All Contracting Activities	Administrative Policies and Standard Operating Procedures
Organizational Coordination / Consistency / Standardization	Impacts of Budget Constraints
SANDAG's Mandated Responsibilities	Management Accountability
Board Governance Policies and Best Practices	HR Policies and Practices
Airport Transit Connections Project	SANDAG's Management Authority, Delegation and Escalation Procedures
IT Systems and Cybersecurity	Otay Mesa East Project
Project Funding Controls	Staffing Equity Analysis
Capital Projects: Technology and Resource Planning Tools	Capital Projects: Risk Management
Capital Projects: Inflationary Impacts	Office Move
Purchasing Card Practices	Tolling Operations
SR 125 Implementation	Office of General Counsel Organizational Structure in MPOs/COGs
Contract Monitoring: Performance and Funding	Cross-training
Contracting Best Practices	Agency Harassment, Discrimination, and Retaliation Investigation Practices
Staff Training, Professional Development and Certifications	Budget Process
Capital Projects: Delivery Performance	Agencywide Technology Assessment
Regional Housing Needs Allocation Methodology	Organizational Structure, Mandated Responsibility and Resource Allocation
Transportation Grant Selection Process	Staff Travel
Effectiveness of SANDAG's Outreach Strategies: Regional Plan, Transit Projects/Policy Work, and Community Involvement	

July 11, 2024

Office of the Independent Performance Auditor – FY 2024 Annual Investigations Report

Overview

In accordance with Assembly Bill 805 (Gonzalez, 2017), Board Policy No. 039: Audit Policy and Advisory Committee and Audit Activities (Board Policy No. 39) Section 6.11, and the established FY 2024 Performance Measures for the Independent Performance Auditor (IPA), the IPA will present Office of the Independent Performance Auditor (OIPA)'s FY 2024 Annual Investigations Report.

Key Considerations

The IPA has prepared OIPA's FY 2024 Annual Investigations Report. This report is a summary of all activity received by OIPA related to fraud, waste, abuse and/or gross mismanagement. Matters considered for Investigations can be initiated by the IPA, requested by the Audit Committee or Board of Directors, or identified by agency staff or stakeholders received in FY 2024. The report is provided for review and discussion by the Audit Committee. The Audit Committee is asked to recommend that the report be forwarded to the Board as an information item.

Next Steps

This report will be published on the OIPA's website. If recommended by the Audit Committee, the report will be provided to the Board as an information item in September 2024.

Courtney Ruby, Independent Performance Auditor

Attachment: 1. OIPA's FY 2024 Annual Investigations Report

Action: **Recommend**

The Office of the Independent Performance Auditor will present the Annual Investigations Report (Report), and the Audit Committee is asked to recommend the Report be provided to the Board of Directors for information.

Fiscal Impact:

Potential Fund Recovery

Schedule/Scope Impact:

FY 2024

ANNUAL INVESTIGATIONS REPORT

Fiscal Year 2024



Courtney Ruby, CPA, CFE
Independent Performance Auditor

Doug D’Pete
Principal Independent Auditor

Annual Investigations Report Overview

The Office of the Independent Performance Auditor (OIPA) is the official body of SANDAG to investigate potential fraud, waste, abuse and gross mismanagement. Investigations may be initiated directly by the Independent Performance Auditor (IPA), or upon request by the SANDAG Board of Directors and Audit Committee or through complaints filed through the Whistleblower Hotline.



This Annual Investigations Report provides a summary of the OIPA's SR 125 investigation, an overview of the Whistleblower Hotline investigation process, the number and types of allegations submitted in Fiscal Year (FY) 2024, the allegations warranting an investigation, and then concludes with a summary of the investigation outcomes and actions taken.

Investigations Initiated by IPA, Board of Directors and/or Audit Committee

SR 125 Investigation Summary

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 IPA launched a three-month accelerated 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. During the investigation, other significant matters were discovered.

SR 125 serves approximately 60,000 daily users and SANDAG's Finance department (Finance department) reported total annual revenue of just over \$39 million, with almost \$35 million coming from toll revenue. SANDAG allowed ETAN's new SR 125 back-office tolling system (BOS) to go live on June 6, 2022, with the knowledge that ETAN did not fulfill many of its contractual requirements.

The investigation found ETAN's Fastlane financial reporting cannot be relied upon, and the Finance department lacks adequate internal controls, including proper review and supervision, to ensure SR 125 financial information is accurately recorded and reported. The report recommends an independent assessment of the Finance department's policies, procedures, and practices.

During the investigation, several other significant matters were discovered and are noted in the report. For instance, the investigation revealed ETAN's implementation of the BOS 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.

The report includes 10 recommendations to both the SANDAG Board and SANDAG executive management. The report is available [here](#).

The Whistleblower Hotline

Purpose

The Whistleblower Hotline is a safe and reliable way for SANDAG employees, contracted parties, members of the public or other stakeholders to report allegations of fraud, waste, abuse and gross mismanagement at SANDAG. Reports are received via OIPA's website, phone, or email and can be made anonymously.

The Investigation and Referral Process

The OIPA conducts a preliminary analysis of each complaint submitted through the Whistleblower Hotline. We follow five (5) criteria in determining if the allegations reported in each complaint warrant launching an investigation:

1. Did it involve SANDAG property, infrastructure, employees, officials, contractors, or does it otherwise fall within the OIPA's jurisdiction?
2. Does it meet the criteria of fraud, waste, abuse, or gross mismanagement?
3. Did it occur within the last year?
4. Was sufficient information provided to initiate an investigation?
5. Is the matter currently being litigated?

Once the OIPA has reviewed and accepted a complaint, an investigation will be initiated by the IPA. Investigations in progress are not made public until they are completed. If an investigation into a claim is substantiated and is significant to the operations of SANDAG, a standalone investigation report will be issued. If the matter is substantiated but not significant, meaning it only impacts a small part of SANDAG's operations, the results will be captured in the Annual Investigations Report.

Fiscal Year 2024 Whistleblower Cases by Allegation Type

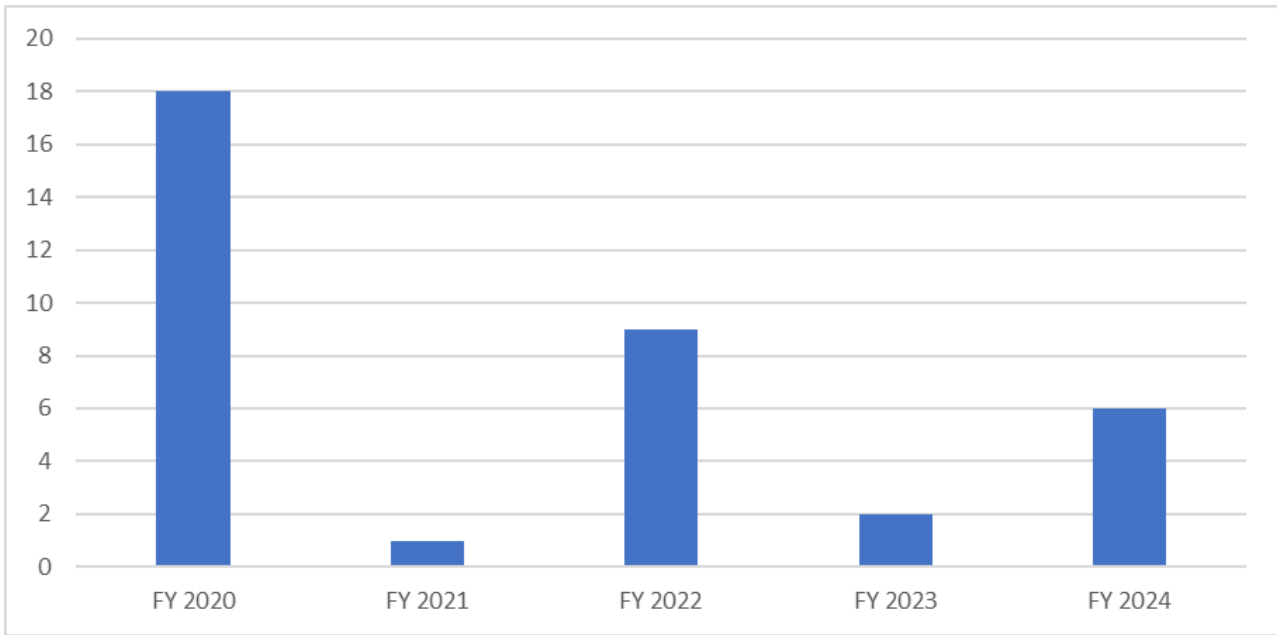
Whistleblower complaints included a diverse range of allegation types. The table below shows the number of complaints by allegation type received in FY 2024.

Allegation Type	Total
Other*	2
Misconduct or Inappropriate Behavior	2
Hiring Irregularities	1
Misuse of Assets or Services	1
Grand Total	6

Note: *Allegations categorized as “Other” include a diverse range of allegations including criminal activity, public nuisances, and irresponsible/poor/unfair customer service.

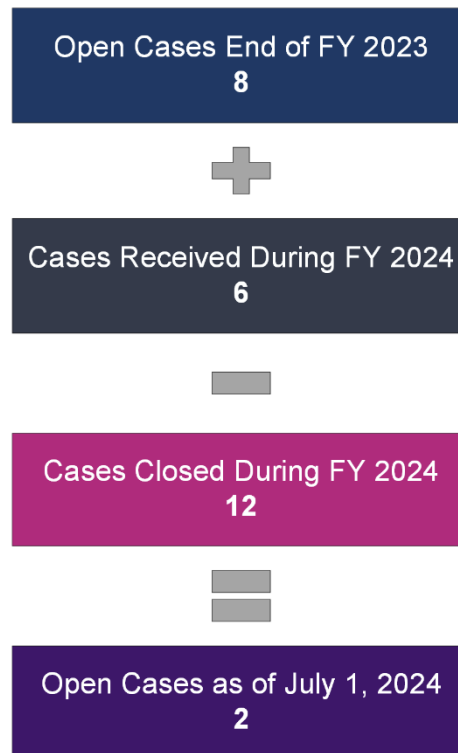
Cases Received Between Fiscal Years 2020 and 2024

In FY 2024 (July 1, 2023, through June 30, 2024) the Whistleblower Hotline received and reviewed six (6) cases. The exhibit below provides a historical perspective as to the number of cases received since FY 2020.



Summary of Cases Received

In FY 2024, six (6) complaints were filed. At the end of the fiscal year, two (2) cases were still in the process of being investigated.



Summary of Closed Whistleblower Cases

As the chart above indicates, 12 cases were closed in FY 2024.

Three (3) were closed after an investigation. The remaining nine (9) closed cases fell into the categories of:

- not fraud, waste, abuse or gross mismanagement,
- outside Whistleblower Hotline jurisdiction,
- outside the one-year time limit,
- not applicable.

A detailed list of closed cases is included at the end of this document.

Results of Closed Cases

The whistleblower cases were closed for the following reasons:

- Two (2) complaints were not substantiated, meaning after an investigation there was inconclusive information to substantiate or refute the allegations.
- One (1) complaint had multiple allegations that were either:
 1. not substantiated, meaning after an investigation there was inconclusive information to substantiate or refute the allegations,
 2. refuted, which means after an investigation, allegations were determined to be false, or
 3. out of jurisdiction, meaning the allegation does not fall under the OIPA Whistleblower Hotline's jurisdiction.
- Two (2) complaints were forwarded and closed after a preliminary review determined other SANDAG departments or outside agencies should review the complaint further.
- Two (2) complaints were closed after a preliminary review determined the cases did not qualify as fraud, waste, abuse or gross mismanagement, were in litigation, there was insufficient information to investigate, the complaint occurred over a year ago, or the complaint was outside of the OIPA Whistleblower Hotline's jurisdiction.
- One (1) complaint was closed due to not qualifying as fraud, waste, abuse or mismanagement, but it was determined that the SANDAG working environment would be monitored by OIPA for similar complaints in the foreseeable future.



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Whistleblower Hotline

(619) 595-5386

The Whistleblower Hotline is accessible on SANDAG's **website**:

<https://www.sandag.org/about/office-of-the-independent-performance-auditor/whistleblower-hotline>

By **phone** at (619) 595-5323

Or via **email** at courtney.ruby@sandag.org

If one prefers to communicate outside of SANDAG's IT infrastructure,
email can be sent to cruby.ipa.oipa@gmail.com.

Appendix A: Complaint Summary

#	Date Opened	Allegation Type	Allegation Details	Outcome	Action Taken
1	7/27/2021	Misuse of Assets or Services	Allegation of misuse of funds for bike lanes.	None	Referred to Audit
2	2/2/2022	Misuse of Assets or Services	Reporter cited concern that Pershing Drive Bike project doubled in cost.	None	Referred to Audit
3	2/8/2022	Misuse of Assets or Services	Reporter cited concerns that the costs for bikeways doubled in cost and that the location of the bikeway projects were mostly in the City of San Diego.	None	Referred to Audit
4	2/14/2022	Misuse of Assets or Services	Allegation of abusive waste of taxpayer dollars for bike lanes.	None	Referred to Audit
5	8/7/2022	Environmental Protection, Health or Safety Law	Multiple allegations concerning seismic laws not being followed for multiple projects.	Refuted Not Substantiated Out of Jurisdiction	No Action Taken
6	2/17/2021	Quid pro quo	Allegation that SANDAG consultant/contractor and prior SANDAG employee were involved in a quid pro quo scheme.	None	Referred to outside agency
7	12/13/2023	Hiring Irregularities	Allegation that an employee was fired and an open recruitment process was not followed.	Not Within 1 Year	No Action Taken
8	6/6/2024	Other	Reporter alleged they were charged incorrectly on the toll road.	Not Fraud, Waste, Abuse or Gross Mismanagement	Referred to appropriate department / channel
9	5/31/2022	Improper Supplier or Contractor Activity	Allegations that certain contractors are acquiring contractors without competitive bids.	None	Referred to Audit
10	7/10/2023	Misuse of Assets or Services	Allegation of a social event using taxpayer funds.	Not Substantiated	No Action Taken
11	12/21/2022	Misconduct or Inappropriate Behavior	Allegation that SANDAG management abused their power.	Not Substantiated	Recommended corrective action
12	6/25/2024	Misconduct or Inappropriate Behavior	Allegation of bullying behavior and a toxic work environment.	Not Fraud, Waste, Abuse or Gross Mismanagement	Continue to monitor



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Introduction

- The Office of the Independent Performance Auditor (OIPA) is the official body of SANDAG to investigate potential fraud, waste, abuse and gross mismanagement.
- Investigations may be initiated:
 - Directly by the Independent Performance Auditor (IPA)
 - Upon request by the SANDAG Board of Directors and Audit Committee
 - Through complaints filed via the Whistleblower Hotline

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OIPA Initiated Investigations

SR 125 Investigation

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.

Purpose

- Determine if SR125 finances could be relied upon.
- Determine steps SANDAG took to rectify known errors with Customer Accounts.

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OIPA Initiated Investigations

SR 125 Investigation Summary

Findings

- ETAN's Fastlane financial reporting cannot be relied upon.
- SANDAG's Finance department lacks adequate internal controls to ensure SR 125 financial information is accurately recorded and reported.

Recommendation

- Independent assessment of Finance department recommended and approved by the Board of Directors.



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OIPA Initiated Investigations

SR 125 Investigation Outcome

- ETAN's BOS implementation 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.
- Ten recommendations provided to the Board of Directors and SANDAG executive management.



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Whistleblower Hotline



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Whistleblower Hotline

Purpose

- Safe and reliable way for SANDAG employees, contracted parties, members of the public and other stakeholders to report allegations of **fraud, waste, abuse and gross mismanagement**.
 - "Fraud, waste, abuse, and gross mismanagement" means any activity by a local agency or employee that is undertaken in the performance of the employee's official duties, including activities deemed to be outside the scope of his or her employment, that is in violation of any local, state, or federal law or regulation relating to corruption, malfeasance, bribery, theft of government property, fraudulent claims, fraud, coercion, conversion, malicious prosecution, misuse of government property, or willful omission to perform duty, is economically wasteful, or involves gross misconduct.

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Whistleblower Hotline

Investigation/Referral Process

- Complaints can be submitted via email, phone or a mailed complaint form.
- Complaints can be anonymous.
- Complainant information is kept confidential, unless need to inform law enforcement.

Preliminary Analysis

- Did it involve SANDAG property, infrastructure, employees, officials, contractors or does it otherwise fall within the OIPA's jurisdiction?
- Does it meet the criteria of fraud, waste, abuse or gross mismanagement?
- Did it occur within the last year?
- Was sufficient information provided to initiate an investigation?
- Is the matter not currently being litigated?

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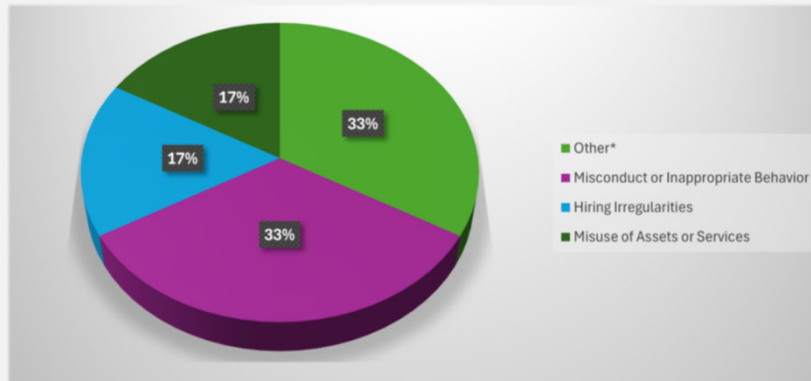
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Whistleblower Hotline

New Cases by Allegation Type



*Allegations categorized as "Other" include a diverse range of allegations including criminal activity, public nuisances and unresponsive/poor/unfair customer service.

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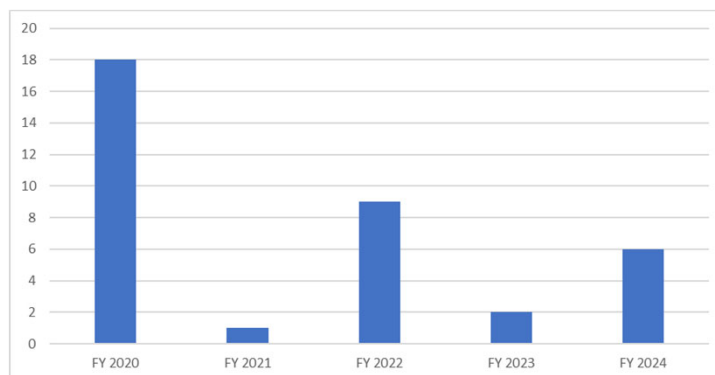
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Whistleblower Hotline

New Cases Received FY2020 to FY2024



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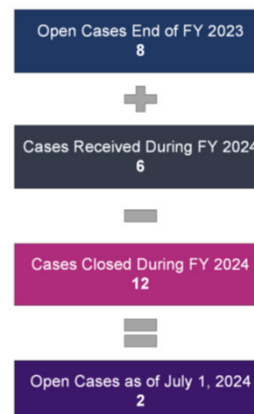
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Whistleblower Hotline

Summary of Cases Received

- Six (6) new complaints filed
- 12 cases closed in FY 2024
- Two (2) cases still being investigated



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Whistleblower Hotline

Results

Whistleblower Cases were closed for the following reasons:

- 2 complaints were **not substantiated**.
- 1 complaint had multiple allegations that were either a) **not substantiated**, b) **refuted**, and/or c) **out of jurisdiction**.
- 2 complaints were forwarded and closed after preliminary review determined an **outside agency or other SANDAG department** should review further.
- 2 complaints were closed as they **did not qualify** as fraud, waste, abuse or gross mismanagement, were in current litigation, lacked sufficient information to investigate, occurred over one year ago, and/or were outside the OIPA's Whistleblower Hotline jurisdiction.
- 1 complaint was closed after preliminary review determined the allegation did not qualify as fraud, waste, abuse or gross mismanagement; however, the **OIPA will monitor the SANDAG work environment** for similar complaints going forward.

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Whistleblower Hotline

Looking Ahead

Enhancement of the Whistleblower Hotline Program

- Educate all SANDAG employees and governing body on OIPA's Whistleblower Hotline Program including whistleblower protections from retaliation.
- Develop a contractor outreach campaign.

Detection and Deterrence of Fraud, Waste, and Abuse

- Perform timely investigations in the areas of fraud, waste, abuse, and gross mismanagement. Prioritize resources based on potential impact to the organization, stakeholders, and the public.



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Questions?

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Performance Audit of SANDAG's Contracts Invoicing and Payment Process

Audit Period

July 1, 2019 –
June 30, 2023

Courtney Ruby, CPA, CFE

Independent Performance Auditor

Lloyd Carter

Deputy Independent Performance Auditor

Krystal Carranza

Christopher Delgado

Michael Ryan

Associate Independent Auditors



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**Office of the Independent
Performance Auditor**

Courtney A. Ruby, CPA, CFE
Independent Performance Auditor
courtney.ruby@sandag.org

July 3, 2024

Nora Vargas, Chair
SANDAG Board of Directors

David Zito, Chair
SANDAG Audit Committee

**SUBJECT: CONTRACT INVOICING AND PAYMENTS AUDIT FOR THE PERIOD OF
JULY 1, 2019, THROUGH JUNE 30, 2023**

Dear Chair Vargas and Chair Zito:

The Office of the Independent Performance Auditor (OIPA) completed an audit of SANDAG's contract invoicing and payments processes for the period of July 1, 2019, to June 30, 2023. This audit was initiated in response to the significant audit findings in the OIPA's Operational Process and System Control Review - Contracts and Procurements Audit Parts I & II.

The objective of this engagement was to determine the effectiveness of SANDAG's review and approval controls over the contract invoicing and payments processes.

The OIPA sampled invoices from five (5) contractors identified in the Operational Process and System Control Review - Contracts and Procurements Audit Part I issued October 14, 2022. SANDAG paid approximately \$92 million to these five (5) contractors over four (4) years, and invoice transactions totaling approximately \$34 million were tested during the audit.

The audit findings include invoices processed with insufficient supporting documentation, invoiced rates not matching approved contract rates, finance records missing documentation, and invoices missing approval signatures.

Most concerning is the finding that invoices totaling \$13,055,123, or 32.39 percent of the sample size, did not include sufficient documentation to determine what work was completed by contractors. These findings are consistent with the findings related to invoicing in the Contracts and Procurement Operational and System Control Audit Parts I & II.

Management agrees with all seven (7) recommendations included in the report and Management's Response and Corrective Action Plan can be found in Appendix C of the attached report.

Management must tackle, with haste and intention, the core systemic issues that have resulted in a lax invoicing and payments process to ensure SANDAG only pays for verified and well documented contracted services.

This summer, the OIPA will be conducting its annual recommendation follow-up process. This will include reviewing the implementation status of all OIPA's past outstanding audit recommendations, including the 97 recommendations from the Contracts and Procurement Operational and System Control Audit Parts I & II.

When these recommendations are fully implemented, SANDAG contracting procedures will be greatly improved and the public can be assured their monies will be expended properly with full accountability and transparency.

The OIPA would like to thank SANDAG management and staff for their cooperation during this audit and their commitment to implementing the audit recommendations. If you have additional questions, please contact me at (619) 595-5323 or courtney.ruby@sandag.org.

Respectfully,



COURTNEY A. RUBY, CPA, CFE
Independent Performance Auditor
Office of the Independent Performance Auditor

Attachments:

1. Audit Report – Invoicing and Payments Audit
2. Management Response and Corrective Action Plan

RESULTS

Introduction

This report presents the results of the OIPA's performance audit of SANDAG's contracts invoicing and payment process for the audit period July 1, 2019, to June 30, 2023. The audit objective was to determine whether SANDAG's review and approval controls are effective over the contract invoice and payment process. See Appendix A for audit objective, scope, methodology and compliance statement.

This audit is part of the Board-approved annual Audit Plan. The Audit Plan is risk based and prioritized by the level of risk to the agency. Risks are considered from both qualitative and quantitative perspectives. Given the significant audit findings in the OIPA's Operational Process and System Control Review - Contracts and Procurements Audit Parts I & II, contractor invoicing and payments was considered a high risk and included in the FY 2023-24 Audit Plan. Initially, 5 separate audit reports were planned, however, the audit work was combined into one audit report reviewing the invoicing and payments process for 5 separate contractors.

To evaluate the effectiveness of the contract invoicing and payment process, the OIPA selected 5 contractors identified in the Operational Process and System Control Review - Contracts and Procurements Audit Part 1 issued October 14, 2022. These contractors had the highest dollar increase in contract value compared to the original contract award amount: (1) HNTB Corporation, (2) WSP USA Inc., (3) PGH Wong Engineering, Inc., (4) Jacobs Project Management (JPM), and (5) AECOM Technical Services (see Appendix B).

SANDAG paid approximately \$92 million to these 5 contractors over 4 years (see Table 1).

Table 1: Audit Period Invoices and Payments

Contractor	Invoices	Paid
HNTB	887	\$48,418,522
WSP	268	14,012,655
PGH Wong	231	11,573,169
JPM	87	9,586,117
AECOM	224	8,496,275
Total	1697	\$92,086,738

Background

As a recipient of public funds, SANDAG is responsible for ensuring that funds are properly spent for the intended public purposes. SANDAG uses internal policies and procedures in administering the process of invoicing and payments and must also adhere to all applicable state and federal laws, as well as the rules and regulations imposed by various funding agencies.

Additionally, SANDAG is responsible for managing projects to ensure budgets and timelines are being adhered to, public funds are spent appropriately and efficiently in accordance with contract terms, and invoices are reviewed to verify completion of work prior to payment.

SANDAG project managers are responsible for important components of the contract invoice payment process, which includes invoice review, approval, and submission for payment. Prior to payment, invoices must adhere to contract requirements and be approved and signed off by project managers. Project managers are responsible for reviewing invoices for fraudulent charges, timeliness and accuracy, allowable costs, consistency with contract terms, and acceptability of contractor's work. Project managers then submit the invoices to their manager or director for approval before submitting to Finance for payment. Finance then completes several levels of review of the request for payment and documents submitted prior to entering the request into the accounting system and issuing the payment.

SANDAG paid the 5 selected contractors a total of 1,697 invoices valued at \$92 million during the audit period. A random audit sample of 423 invoice transactions totaling approximately \$34 million paid between July 1, 2019, to June 30, 2023¹ was selected. (see Table 2). The majority of invoices reviewed were Architectural & Engineering/Construction Management services contracts totaling approximately \$27.7 million or 81% of the sample.

¹ The audit period for HNTB was from July 1, 2019 to June 30, 2023. HNTB's audit was initiated July 5, 2023, and briefly put on hold due to staff workload and therefore has a different audit period. The audit period for the other four contractors (AECOM, WSP, JPM, and PGH) was July 1, 2021 to June 30, 2023.

Table 2: Sampled Invoices

Contractor	Total Invoices	Total Paid	Sample Size	Sample Paid	% of Total Paid
HNTB	887	\$48,418,522	83	\$9,502,916	19.6%
WSP	268	14,012,655	101	4,790,000	34.2%
PGH Wong	231	11,573,169	77	5,772,480	49.9%
JPM	87	9,586,117	87	9,586,117	100.0%
AECOM	224	8,496,275	75	4,394,178	51.7%
Total	1697	\$92,086,738	423	\$34,045,691	37.0%

Note: HNTB audit scope included 2 more years than other contractors and resulted in a higher total paid amount and a lower % of total paid.

The audit identified the following issues during the review of contractor invoices:²

1. Insufficient Supporting Documentation
2. Invoiced Rates Not Matching Approved Rates
3. Missing Records
4. Missing Approval Signatures

Table 3: Identified Audit Issues

Contractor	Sample Size	Insufficient Supporting Documentation	Invoiced Rates vs Approved Rates	Missing Records	Missing Approval Signatures
HNTB	83	12	8	0	3
WSP	101	48	0	3	0
PGH Wong	77	45	0	0	0
JPM	87	19	0	0	0
AECOM	75	13	6	3	1
Total	423	137	14	6	4
Percentage		32.39%	3.31%	1.42%	0.95%

² These categories align with the findings further explained below.

Finding 1: Invoices Paid with Insufficient Supporting Documentation

Adequate supporting documentation was not always included with contractor invoices submitted to Finance.

Adequate supporting documentation was not always included with contractor invoices submitted to Finance. We determined that **137** of **423** reviewed invoice transactions (**32.39%**) totaling **\$13,055,123** did not include sufficient documentation to determine what work was completed (**see Table 3**). This includes a lack of documentation outlining what work was performed, missing or incomplete timecards, and missing documentation of subcontractor(s) work.

Adequate supporting documentation provides physical evidence that contracted services were performed, authorized, and allowable. Additionally, it supports the payment request to ensure transactions are recorded accurately and completely in the financial records. Adequate documentation includes information such as the date, amount, detailed description of the work performed and required signatures. The description of services rendered must match contracted services.

Contracts can authorize work via task orders or be project-specific for different projects. The contractor prepares an invoice for work performed by task and submits it to a SANDAG project manager for review and payment. Most of the reviewed invoices included the following language on the contract task order:

“Each invoice shall clearly identify the work performed, the amount due, and invoice period per project and/or cost code. The consultant is to attach back-up documentation supporting authorized expenses. Timesheets must accompany each invoice with the authorized classification, individual, rate, and hours worked listed clearly.”

Per the SANDAG Request for Payment (RFP) form, project managers requesting invoice payments should attach all necessary supporting documentation before submitting the invoice to Finance for payment.

During the audit period, project managers were not consistent in requesting itemized or detailed summaries of work performed from contractors for inclusion in the processing and submittal of the RFP to Finance.

The Finance department is an essential part of SANDAG, and their functions include accounting and reporting, accounts receivable, accounts payable, and cash management, however; during the audit, Finance staff indicated they do not review or request supporting documents other than the RFP from the project managers.

The SANDAG Standard Services Agreement Section II, A, *Allowable Costs and Payments* states:

Separate invoices itemizing all costs are required for all work performed under each Task Order.

However, the SANDAG Standard Services Agreement Section V, *Invoice Requirements* states the only invoice requirements are to:

Reference the Agreement number, Project title, and any applicable Task Order number.

The lack of consistency in SANDAG's internal Standard Services Agreement regarding invoice requirements can cause inconsistent application and ineffective or poor internal control. Following the audit period, in May 2024, SANDAG revised the Standard Service Agreement template to reflect consistent invoice requirements.

When adequate supporting documentation is not submitted with an invoice, SANDAG is at risk of paying for services that were not contracted, completed, authorized or may be duplicative. Further, if work is not being performed according to the contract, this could result in incomplete projects or project delays.

Recommendation #1

We recommend the Contracts and Procurement department provide annual training for project managers on what is required for invoices based on the updated Standard Services Agreement and Task Order requirements. Training should ensure project managers validate the work has been performed and meets contractual requirements before invoices are submitted for payment.

Recommendation #2

We recommend the Finance department update their accounts payable procedures to include requiring supporting documents consistent with the Standard Services Agreement and Task Order submitted for invoice processing.

Finding 2: Invoiced Rates vs Approved Rates

Contractors' invoiced rates did not always match the approved fee schedule or master rate table.

Contractors' invoiced rates did not always match the approved contract fee schedule or master rate table.³ We determined that **14** of **423** reviewed invoice transactions (**3.31%**) did not match the approved fee schedule or master rate table (**see Table 3**).

Per SANDAG's Procurement Policy, project managers are responsible for reviewing invoices to ensure the contractor's invoiced costs are allowable and consistent with the contract terms.

These issues occurred because project managers did not exercise due diligence when reviewing the Contractors' invoices against the most current fee schedule or master rate table for the contract. Additionally, the Contracts and Procurement department does not have a procedure dictating where and how fee schedule approvals and changes should be managed and centrally located to ensure consistent up-to-date record keeping. However, it should be noted that the Contracts and Procurement department did maintain up-to-date rates for most of the contracts that used a master rate table.

When invoiced rates do not match authorized contract rates in the fee schedule or master rate table, SANDAG is at risk of overpaying for services, or paying for unauthorized services.

Recommendation #3

We recommend that the Contracts and Procurement department create a procedure to manage, track and store rate and fee schedule approvals and changes in one file location to ensure accurate verification of invoiced amounts.

Recommendation #4

We recommend the Contracts and Procurement department provide fee schedule training annually to procurement staff and project managers to ensure fee schedules align with contract needs and project managers can efficiently verify and track invoices.

³ Contracts either follow a fee schedule or master rate table. A fee schedule is included in the contract or task order, changes or additions to these are made in subsequent task orders or amendments. Master rate tables are organized and tracked in a log/spreadsheet by year and updated as changes or amendments are made.

Finding 3: Missing Records

Finance invoice records did not always include a copy of the checks issued or completed accounts payable batch review for invoices paid.

Finance invoice records did not always include a copy of the checks issued or completed accounts payable (AP) batch review for invoices paid. We determined that **6** of **423** reviewed invoice transactions (**1.42%**) did not comply with Finance's invoice recordkeeping requirements (**see Table 3**).

Check copies must be retained to provide tangible proof when errors appear on the bank statements that don't match the entries made in the accounting system.

AP batch processing is an internal method for processing multiple transactions as a single group which helps in handling tasks, like payroll, or end-of-month reconciliation. SANDAG's AP batch processing procedure entails steps to ensure accuracy including three levels of review by the accounts payable processor, senior accountant and the finance manager, who is the final reviewer. Effective January 2024, according to SANDAG staff, this process is no longer applicable with the implementation of the new ERP system.

Per SANDAG's accounts payable procedure, the batch review must be completed prior to posting the payment in the accounting system. Additionally, the procedure requires that upon completion of the check run, a check register is filed. Finance records during the audit period included both hard copy prints of records and electronic files in SharePoint.

Per SANDAG's Records Retention Schedule, accounts payable records are to be retained permanently, including account postings with supporting documentation and vouchers.

These issues occurred because Finance staff did not exercise due diligence to ensure proper recordkeeping was maintained for payments.

When proof of completed batch review or proof of payments are not documented, SANDAG is at risk of not being able to easily identify questionable payments or errors in the accounting system, in addition to being out of compliance with their policy.

Recommendation #5

We recommend that the Finance department staff is reminded to follow Finance department procedures and/or update their procedures when their process changes.

Finding 4: Missing Approval Signatures

SANDAG Management's review and approval controls over the contract invoice payment process were not always effective.

SANDAG Management's review and approval controls over the contract invoice payment process were not always effective. We determined that **4** of **423** reviewed invoice transactions (**0.95%**) totaling **\$115,311** did not comply with invoice review, approval, or submission requirements (**see Table 3**). These transactions were missing at least one approval signature, either the project manager signature or the Director/Manager signature on the Request for Payment forms.

Per SANDAG's Procurement policy, project managers are responsible for reviewing invoices for fraudulent charges, timeliness and accuracy, allowable costs, consistency with contract terms, and acceptability of Contractor's work. Managers are then responsible for approving the invoices submitted by the project manager, before they are sent to Finance.

SANDAG's Delegation policy states that Managers approve all invoices except the final one. Directors approve the final invoice of final progress payment up to Agreement limit.

Additionally, the Request for Payment form instructs that all payment requests must be approved by the appropriate project manager and the other appropriate levels, as defined in the Delegation policy, before submitting the request to Finance for payment processing. Further, the form states that requests will not be processed without these approvals.

Dual approval protects the agency and safeguards employees from making unintended errors, perpetrating fraud, or deviating from approval processes. Requiring two different approval signatures creates a system of checks and balances and helps to prevent fraud.

These issues occurred because Finance staff did not exercise due diligence and reject invoices that did not meet all submission requirements of having two signatures. In all cases identified in this finding, at least one signature was missing, and payment was still made to the contractor.

When invoices do not meet approval and submission requirements, SANDAG is at risk of paying duplicate invoices, or for invoiced goods and services that may not have been received or met contract requirements.

Recommendation #6

We recommend that the Finance department and project managers are adequately trained annually to ensure that invoice approval processes are being followed in accordance with SANDAG policy.

Recommendation #7

We recommend that the procurement policy be amended to require two different approval signatures: one by the project manager (PM) and the other from the PM's manager or director. If the director is the PM, the director must seek their manager's approval before submitting to Finance for payment.

Prior Audit Recommendations

Many of the recommendations stated above parallel prior recommendations in the Contracts and Procurement Operational and System Control Audit Parts I & II, dated October 14, 2022 (Part I), and May 12, 2023 (Part II). The overlap of recommendations from the Contracts and Procurement audit includes:

- The creation of SOPs to provide instructions on entering and processing invoices with all necessary supporting documentation included,
- Verification of work performed to ensure it is allowed in the contract/task order,
- Inclusion of detailed itemization of work prior to processing payment(s),
- Regular training to contracts and procurement staff, project managers, and finance personnel to maintain adherence to written policies.

Management presented the status of their corrective action plan for the Contracts and Procurement Operational and System Control Audit (Parts I and II) to the Audit Committee on May 2024. Management stated templates have been updated to require invoices be detailed/itemized and progress reports or detailed summaries of work performed be included. The OIPA confirmed the templates have been updated.

In addition, Management stated that multiple action items⁴ to address the audit recommendations have been completed with the implementation of the new Enterprise Resource Planning System (ERP). The OIPA will be conducting audit recommendation follow-up testing this summer on outstanding audit recommendations. The recommendations from the Contracts and Procurement Operational and System Control Audit (Parts I and II) will be included in this process.

⁴ None of the action items were enacted during the scope of the audit period.

Appendix A: Additional Information

Objective, Scope and Methodology

Our objective was to determine whether SANDAG policies, procedures, and internal controls existed and were being followed when processing contract invoices and payments. The audit areas included invoices and payments made to the following five (5) contractors: HNTB, WSP, PGH Wong, AECOM and JPM.

We established a random sample of invoices from the five (5) contractors to review from July 1, 2019, to June 30, 2023. During this period, SANDAG stored records as hard copies and later as electronic files while using various systems to store contract and invoice records, including SharePoint, OneSolution, and CMS.

We reviewed invoices and payments for each contractor for the following periods:

- HNTB invoices for the period of July 1, 2019, to June 30, 2023. HNTB's audit was initiated on July 5, 2023, and therefore has a different audit period. It was briefly put on hold due to staff workload.
- WSP, PGH Wong, AECOM and JPM invoices for the period of July 30, 2021, to June 30, 2023.

To accomplish our objective, we:

- Reviewed SANDAG's policies to ensure they were consistent with Federal and State regulations and other applicable governing laws, rules, and regulations.
- Reviewed SANDAG's system controls for invoicing and payments to ensure effective and efficient controls exist and are followed.
- Tested, on a sample basis, a portion of the population of transactions to determine whether they were appropriate, allowable, and supported by adequate documentation and adhered to established policies and procedures.

Statement of Compliance with Auditing Standards

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B: Prior Audit Information

Top 5 Contractors with the highest dollar increase in contract value to the original contract award amount as presented in Table 3.2 from the OIPA's Contracts and Procurement Operational and System Control Audit Part I, issued October 14, 2022

Contractor	Original Amount Awarded	Current Amount Awarded	Difference	% Change
WSP	\$140,307,107	\$204,290,405	\$63,983,298	46%
PGH Wong	\$31,713,659	\$63,245,356	\$31,531,697	99%
HNTB	\$58,166,991	\$88,015,358	\$29,848,367	51%
Jacob Project Management (JPM)	\$33,483,362	\$59,959,958	\$26,476,596	79%
AECOM	\$35,396,122	\$56,538,676	\$21,142,554	60%

Prior Audit Coverage

Report Title	Objective	Report Number	Final Report Date
Contracts and Procurement Operational and System Control Audit (Part I and Part II)	The objective of this engagement was to audit SANDAG's management of contracts and procurement.	2022-05 (Part I and Part II)	October 14, 2022; May 12, 2023

Appendix C: Management's Comments and Corrective Action Plan

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July 1, 2024

TO: Courtney Ruby, Independent Performance Auditor

FROM: Mario Orso, Chief Executive Officer

SUBJECT: Management Response to OIPA Invoicing and Payments Audit

Thank you for the opportunity to respond to the Office of the Independent Performance Auditor's (OIPA's) Invoicing and Payments Audit. We appreciate the work you and your team have completed to develop this analysis. We accept the audit findings and Management's Action Plan responsive to the audit recommendations is attached.

As mentioned in the audit report, many of recommendations are consistent with those from Parts I and II of OIPA's Contracts audit completed in 2022 and 2023. Management presented a status update on the Contracts Audit Action Plan to the Audit Committee in May 2024. Some of the recent accomplishments from this work plan include the implementation of the Enterprise Resource Planning (ERP) system earlier this year. The new processes and controls introduced with the system are expected to prevent many of the issues found during the most recent audit. However, as underscored by this audit, the ERP is only part of the solution. This new system must be coupled with effective program and project management practices, and ensuring staff receive the training and support they need to complete the agency's work program.

We look forward to continuing to work with the OIPA to improve processes and practices to ensure that funds are properly spent for the intended public purposes. Again, thank you for your efforts on this analysis and continued partnership in being prudent stewards of taxpayer dollars.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mario Orso', is written over a light blue horizontal line.

MARIO ORSO
Chief Executive Officer

Attachment 1: Proposed Management Action Plan – Invoicing and Payments Audit



Proposed Management Action Plan

Invoicing and Payments Audit for the period
July 1, 2019, through June 30, 2023

The SANDAG Office of the Independent Performance Auditor (OIPA) completed the above-referenced audit in June 2024. Management has reviewed and discussed the Final Audit Report with OIPA staff and has accepted the findings. Per the Action Plan outlined below, Management will undertake the recommendations offered by OIPA as part of its commitment to continuous improvement and to support the highest levels of organization performance.

Management shall periodically report progress and completion of the Action Plan to OIPA and the Audit Committee.

Finding I: Invoices Paid with Insufficient Supporting Documentation

Adequate supporting documentation was not always included with contractor invoices submitted to Finance.

OIPA Recommendation	Management Action Plan	Responsible Official and Estimated Completion Date
1. We recommend the Contracts and Procurement department provide annual training for project managers on what is required for invoices based on the updated Standard Services Agreement and Task Order requirements. Training should ensure project managers validate the work has been performed and meets contractual requirements before invoices are submitted for payments	The Contracts and Procurement Services team will be launching the first phases of a Contract Management Support Unit (CMSU) in Fall 2024 to assist project managers with post-award contract administration functions. The CMSU will provide regular training and develop resources for project managers on a broad range of topics, including requirements for supporting documentation to substantiate invoice payments.	Director of Contracts and Procurement Services Due: September 30, 2024
2. We recommend the Finance department update their accounts payable procedures to	The Accounting and Finance team will develop and implement additional procedures that clarify the role and	Director of Accounting and Finance

OIPA Recommendation	Management Action Plan	Responsible Official and Estimated Completion Date
include requiring supporting documents consistent with the Standard Services Agreement and Task Order submitted for invoice processing.	responsibility of Accounts Payable, project managers, and other staff involved in the preparation, submittal, review, and processing of invoice packages.	Due: September 30, 2024

Finding II: Invoiced Rates vs Approved Rates

Contractors' invoiced rates did not always match the approved fee schedule or master rate table.

OIPA Recommendation	Management Action Plan	Responsible Official and Estimated Completion Date
3. We recommend that the Contracts and Procurement department create a procedure to manage, track and store rate and fee schedule approvals and changes in one file location to ensure accurate verification of invoiced amounts.	The Contracts and Procurement Services team has initiated process improvements related to maintaining and providing up-to-date rate and fee schedule information to include centralizing On-Call rate and fee schedules and updating procedures for amended rate and fee schedules.	Director of Contracts and Procurement Services Due: December 31, 2024
4. We recommend the Contracts and Procurement department provide fee schedule training annually to procurement staff and project managers to ensure fee schedules align with contract needs and project managers can efficiently verify and track invoices.	The Contracts and Procurement Services team will be launching the first phases of a Contract Management Support Unit (CMSU) in Fall 2024 to assist project managers with post-award contract administration functions. The CMSU will provide regular training and develop resources for project managers on a broad range of topics, including how to use established fee and rate schedules.	Director of Contracts and Procurement Services Due: December 31, 2024

Finding III: Missing Records

Finance invoice records did not always include a copy of the checks issued or completed accounts payable batch review for invoices paid.

OIPA Recommendation	Management Action Plan	Responsible Official and Estimated Completion Date
5. We recommend that the Finance department staff is reminded to follow Finance department procedures and/or update their procedures when their process changes.	The Accounting and Finance team will implement a regular cadence for reviewing and updating departmental procedures and communicating changes to affected employees.	Director of Accounting and Finance Due: December 31, 2024

Finding IV: Missing Approval Signatures

SANDAG Management's review and approval controls over the contract invoice payment process were not always effective.

OIPA Recommendation	Management Action Plan	Responsible Official and Estimated Completion Date
6. We recommend that the Finance department and project managers are adequately trained annually to ensure that invoice approval processes are being followed in accordance with SANDAG Policy.	Consistent with Recommendations 1 and 2 above, Management will ensure Accounts Payable staff, project managers, and other employees involved in the review and approval, of invoice packages receive regular training about agency processes.	Director of Accounting and Finance Due: December 31, 2024
7. We recommend that the procurement policy be amended to require two different approval signatures: one by the project manager (PM) and the other from the PM's manager or director. If the director is the PM, the director must seek their manager's approval before submitting to Finance for payment.	The Accounting and Finance team will develop and implement additional procedures that clarify the submittal and approval requirements for payment requests.	Director of Accounting and Finance Due: December 31, 2024



SANDAG

OIPA

Office of the Independent
Performance Auditor

Contract Invoicing and Payment Process Audit

Audit Nos. CON2024-1 through CON2024-5

Courtney Ruby, CPA, CFE
Independent Performance Auditor

Lloyd Carter
Deputy Independent Performance Auditor

Krystal Carranza

Christopher Delgado

Michael Ryan
Associate Independent Auditors

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Agenda

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- Introduction/Background
- Finding 1
Invoices Paid with Insufficient Supporting Documentation
- Finding 2
Invoiced Rates vs Approved Rates
- Finding 3
Missing Records
- Finding 4
Missing Approval Signatures
- Prior Audit Recommendations

2

Introduction

- Performance audit of SANDAG's contracts invoicing and payment process.
- Audit period from July 1, 2019, to June 30, 2023.
- Part of the Board-approved annual Audit Plan.
 - Plan is risk-based and prioritized by level of risk.
 - Risks considered from both qualitative and quantitative perspectives.
- Contractor invoicing and payments considered high risk following significant findings in OIPA's *Operational Process and System Control Review - Contracts and Procurements Audit Parts I & II*.

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Introduction

Objective

Determine whether SANDAG's review and approval controls are effective over the contract invoice and payment process.

Method

OIPA selected 5 contractors identified in the *Operational Process and System Control Review - Contracts and Procurements Audit Part 1* issued on October 14, 2022.



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Introduction

Contractors selected had the **highest dollar increase in contract value** when compared to the original contract award amount:

Top 5 Contractors in Table 3.2 from the OIPA's Contracts and Procurement Operational and System Control Audit Part I, issued October 14, 2022

Contractor	Original Amount Awarded	Current Amount Awarded	Difference	% Change
WSP	\$140,307,107	\$204,290,405	\$63,983,298	46%
PGH Wong	\$31,713,659	\$63,245,356	\$31,531,697	99%
HNTB	\$58,166,991	\$88,015,358	\$29,848,367	51%
JPM	\$33,483,362	\$59,959,958	\$26,476,596	79%
AECOM	\$35,396,122	\$56,538,676	\$21,142,554	60%

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Background

SANDAG must ensure **public funds are properly spent** for the intended purpose:

- SANDAG uses internal policies and procedures in administering the process of invoicing and payments.
- SANDAG must adhere to all applicable state and federal laws, as well as the rules and regulations imposed by various funding agencies.

SANDAG must also **appropriately manage projects** to ensure:

- Budgets and timelines are adhered to.
- Public funds are spent appropriately in accordance with contract terms.
- Invoices are reviewed to verify completion of work prior to payment.

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Background

1,697 total invoices – totaling **\$92 million** – were paid to the 5 contractors during the audit period.

- A random audit sample of **423** of those invoice transactions – totaling **\$34 million** – was selected.

Contractor	Total Invoices	Total Paid	Sample Size	Sample Paid	% of Total Paid
HNTB	887	\$48,418,522	83	\$9,502,916	19.6%
WSP	268	14,012,655	101	4,790,000	34.2%
PGH Wong	231	11,573,169	77	5,772,480	49.9%
JPM	87	9,586,117	87	9,586,117	100.0%
AECOM	224	8,496,275	75	4,394,178	51.7%
Total	1,697	\$92,086,738	423	\$34,045,691	37.0%

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Invoice Process

SANDAG **project managers** are responsible for important components of the contract invoice payment process:

- Review invoices for fraudulent charges, timeliness and accuracy, allowable costs, consistency with contract terms, and acceptability of contractor's work.
- Confirm invoices adhere to contract requirements and approve/sign.
- Submit invoices to their manager or director for approval before submitting to Finance for final review and payment.

Finance then completes several levels of review of the request and documents submitted, prior to entering the request into the accounting system and issuing payment.

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Findings

The audit identified **four** issues during the review of contractor invoices:

Contractor	Sample Size	Insufficient Supporting Documentation	Invoiced Rates vs Approved Rates	Missing Records	Missing Approval Signatures
HNTB	83	12	8	0	3
WSP	101	48	0	3	0
PGH Wong	77	45	0	0	0
JPM	87	19	0	0	0
AECOM	75	13	6	3	1
Total	423	137	14	6	4
Percentage		32.39%	3.31%	1.42%	0.95%

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Finding 1

Invoices Paid with Insufficient Supporting Documentation

- **137** of **423** reviewed invoice transactions (**32.39%**) totaling **\$13,055,123** did not include sufficient documentation to determine what work was completed.
- Documentation outlining what work was performed was not provided; timecards missing or incomplete, and missing documentation of subcontractor(s) work.
- Project managers not consistent in requesting itemized or detailed summary of work performed from contractors to include with invoices.
- SANDAG's Standard Services Agreement language regarding invoice requirements was inconsistent.

“Adequate supporting documentation was not always included with contractor invoices submitted to Finance.”

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Finding 1: Recommendations

Recommendation #1

We recommend the Contracts and Procurement department provide annual training for project managers on what is required for invoices based on the updated Standard Services Agreement and Task Order requirements. Training should ensure project managers validate the work has been performed and meets contractual requirements before invoices are submitted for payments.



Recommendation #2

We recommend the Finance department update their accounts payable procedures to include requiring supporting documents, consistent with the Standard Services Agreement and Task Order submitted for invoice processing.



Finding 2

Invoiced Rates vs. Approved Rates

- 14 of 423 reviewed invoice transactions (3.31%) did not match the approved fee schedule or master rate table.
- Project managers did not exercise due diligence when reviewing invoices against the most current fee schedule or master rate table for the contract in question.
- Contracts and Procurement department does not have procedures dictating where and how fee schedule approvals and changes should be managed and centrally located to ensure consistent up-to-date recordkeeping.

***“Contractors’
invoiced rates did
not always match
the approved fee
schedule or master
rate table.”***

Finding 2: Recommendations

Recommendation #3

We recommend the Contracts and Procurement department create a procedure to manage, track and store rate and fee schedule approvals and changes in one file location to ensure accurate verification of invoiced amounts.



Recommendation #4

We recommend the Contracts and Procurement department provide fee schedule training annually to procurement staff and project managers to ensure fee schedules align with contract needs, and project managers can efficiently verify and track invoices.



Finding 3

Missing Records

- **6 of 423** reviewed invoice transactions (**1.42%**) did not comply with Finance's invoice recordkeeping requirements.
- In all cases identified in this finding, proof of completed batch review or proof of payment was not documented.
- Finance staff did not exercise due diligence to ensure proper recordkeeping was maintained for payments.

“Finance invoice records did not always include a copy of the checks issued or completed accounts payable batch review for invoices paid.”

Finding 3: Recommendation

Recommendation #5

We recommend the Finance department remind staff to follow Finance department procedures, and/or update their procedures when processes change.



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Finding 4

Missing Approval Signatures

- **4 of 423** reviewed invoice transactions (**0.95%**) totaling **\$115,311** did not comply with invoice review, approval, or submission requirements.
- In all cases identified in this finding, at least one signature was missing, and payment was still made to the contractor.
- Finance staff did not exercise due diligence and reject invoices that did not meet all submission requirements (i.e., containing two signatures).

***“SANDAG
Management’s review
and approval controls
over the contract
invoice payment
process were not
always effective.”***

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Finding 4: Recommendations

Recommendation #6

We recommend Finance department personnel and project managers receive adequate annual training to ensure invoice approval processes are followed in accordance with SANDAG Policy.



Recommendation #7

We recommend an amendment to the procurement policy to require two different approval signatures:

1. Project Manager
2. Project Manager's Director/Manager
 - If PM is a director, they must still obtain their manager's signature before submitting to Finance for payment.



Prior Audit Recommendations

Many recommendations paralleled prior recommendations in the *Contracts and Procurement Operational and System Control Audit Part I* (October 14, 2022) & *Part II* (May 12, 2023):

- Creation of SOPs to provide instructions on entering and processing invoices with all necessary supporting documentation included.
- Verification of work performed to ensure it is allowed in the contract/task order.
- Inclusion of detailed itemization of work prior to processing payment(s).
- Regular training to contracts and procurement staff, project managers, and finance personnel to maintain adherence to written policies.

Prior Audit Recommendations

Management Actions taken following audit completion:

- Presented status of their Corrective Action Plan for the *Contracts and Procurement Operational and System Control Audit (Parts I and II)* to the Audit Committee in May 2024.
- Management stated multiple action items to address the audit recommendations were completed with the implementation of the new Enterprise Resource Planning System (ERP).
 - **OIPA will be conducting audit recommendation follow-up testing later this summer to confirm the status of these action items and Corrective Action Plan.**
- Also stated templates have been updated to require invoices be detailed/itemized and progress reports/detailed summaries of work performed be included.
 - **OIPA has confirmed this action was completed.**

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Questions?

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July 1, 2024

TO: Courtney Ruby, Independent Performance Auditor

FROM: Mario Orso, Chief Executive Officer

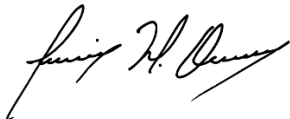
SUBJECT: Management Response to OIPA Invoicing and Payments Audit

Thank you for the opportunity to respond to the Office of the Independent Performance Auditor's (OIPA's) Invoicing and Payments Audit. We appreciate the work you and your team have completed to develop this analysis. We accept the audit findings and Management's Action Plan responsive to the audit recommendations is attached.

As mentioned in the audit report, many of recommendations are consistent with those from Parts I and II of OIPA's Contracts audit completed in 2022 and 2023. Management presented a status update on the Contracts Audit Action Plan to the Audit Committee in May 2024. Some of the recent accomplishments from this work plan include the implementation of the Enterprise Resource Planning (ERP) system earlier this year. The new processes and controls introduced with the system are expected to prevent many of the issues found during the most recent audit. However, as underscored by this audit, the ERP is only part of the solution. This new system must be coupled with effective program and project management practices, and ensuring staff receive the training and support they need to complete the agency's work program.

We look forward to continuing to work with the OIPA to improve processes and practices to ensure that funds are properly spent for the intended public purposes. Again, thank you for your efforts on this analysis and continued partnership in being prudent stewards of taxpayer dollars.

Sincerely,



MARIO ORSO
Chief Executive Officer

Attachment 1: Proposed Management Action Plan – Invoicing and Payments Audit



Proposed Management Action Plan

Invoicing and Payments Audit for the period
July 1, 2019, through June 30, 2023

The SANDAG Office of the Independent Performance Auditor (OIPA) completed the above-referenced audit in June 2024. Management has reviewed and discussed the Final Audit Report with OIPA staff and has accepted the findings. Per the Action Plan outlined below, Management will undertake the recommendations offered by OIPA as part of its commitment to continuous improvement and to support the highest levels of organization performance.

Management shall periodically report progress and completion of the Action Plan to OIPA and the Audit Committee.

Finding I: Invoices Paid with Insufficient Supporting Documentation

Adequate supporting documentation was not always included with contractor invoices submitted to Finance.

OIPA Recommendation	Management Action Plan	Responsible Official and Estimated Completion Date
1. We recommend the Contracts and Procurement department provide annual training for project managers on what is required for invoices based on the updated Standard Services Agreement and Task Order requirements. Training should ensure project managers validate the work has been performed and meets contractual requirements before invoices are submitted for payments	The Contracts and Procurement Services team will be launching the first phases of a Contract Management Support Unit (CMSU) in Fall 2024 to assist project managers with post-award contract administration functions. The CMSU will provide regular training and develop resources for project managers on a broad range of topics, including requirements for supporting documentation to substantiate invoice payments.	Director of Contracts and Procurement Services Due: September 30, 2024
2. We recommend the Finance department update their accounts payable procedures to	The Accounting and Finance team will develop and implement additional procedures that clarify the role and	Director of Accounting and Finance

OIPA Recommendation	Management Action Plan	Responsible Official and Estimated Completion Date
include requiring supporting documents consistent with the Standard Services Agreement and Task Order submitted for invoice processing.	responsibility of Accounts Payable, project managers, and other staff involved in the preparation, submittal, review, and processing of invoice packages.	Due: September 30, 2024

Finding II: Invoiced Rates vs Approved Rates

Contractors' invoiced rates did not always match the approved fee schedule or master rate table.

OIPA Recommendation	Management Action Plan	Responsible Official and Estimated Completion Date
3. We recommend that the Contracts and Procurement department create a procedure to manage, track and store rate and fee schedule approvals and changes in one file location to ensure accurate verification of invoiced amounts.	The Contracts and Procurement Services team has initiated process improvements related to maintaining and providing up-to-date rate and fee schedule information to include centralizing On-Call rate and fee schedules and updating procedures for amended rate and fee schedules.	Director of Contracts and Procurement Services Due: December 31, 2024
4. We recommend the Contracts and Procurement department provide fee schedule training annually to procurement staff and project managers to ensure fee schedules align with contract needs and project managers can efficiently verify and track invoices.	The Contracts and Procurement Services team will be launching the first phases of a Contract Management Support Unit (CMSU) in Fall 2024 to assist project managers with post-award contract administration functions. The CMSU will provide regular training and develop resources for project managers on a broad range of topics, including how to use established fee and rate schedules.	Director of Contracts and Procurement Services Due: December 31, 2024

Finding III: Missing Records

Finance invoice records did not always include a copy of the checks issued or completed accounts payable batch review for invoices paid.

OIPA Recommendation	Management Action Plan	Responsible Official and Estimated Completion Date
5. We recommend that the Finance department staff is reminded to follow Finance department procedures and/or update their procedures when their process changes.	The Accounting and Finance team will implement a regular cadence for reviewing and updating departmental procedures and communicating changes to affected employees.	Director of Accounting and Finance Due: December 31, 2024

Finding IV: Missing Approval Signatures

SANDAG Management's review and approval controls over the contract invoice payment process were not always effective.

OIPA Recommendation	Management Action Plan	Responsible Official and Estimated Completion Date
6. We recommend that the Finance department and project managers are adequately trained annually to ensure that invoice approval processes are being followed in accordance with SANDAG Policy.	Consistent with Recommendations 1 and 2 above, Management will ensure Accounts Payable staff, project managers, and other employees involved in the review and approval, of invoice packages receive regular training about agency processes.	Director of Accounting and Finance Due: December 31, 2024
7. We recommend that the procurement policy be amended to require two different approval signatures: one by the project manager (PM) and the other from the PM's manager or director. If the director is the PM, the director must seek their manager's approval before submitting to Finance for payment.	The Accounting and Finance team will develop and implement additional procedures that clarify the submittal and approval requirements for payment requests.	Director of Accounting and Finance Due: December 31, 2024