



Audit Committee Agenda

**Friday, February 2, 2024
9 a.m.**

Welcome to SANDAG. The Audit Committee meeting scheduled for Friday February 2, 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.

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Vision Statement: *Pursuing a brighter future for all*

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

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

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

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

Audit Committee

Friday, February 2, 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 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. Update - Office of the Independent Performance Auditor Activities

Information

Courtney Ruby, Independent Performance Auditor

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

Consent

+3. Approval of Meeting Minutes

Approve

Courtney Ruby, Krystal Carranza; Office of the Independent Performance Auditor

The Audit Committee is asked to review and approve the minutes from its January 5, 2024, meeting.

[AC_Meeting_Minutes_010524.pdf](#)

Reports

+4. Office of the Independent Performance Auditor's Staffing Needs and Structure

Discussion
/ Possible
Action

Courtney Ruby, Independent Performance Auditor

The Audit Committee is asked to discuss the need for additional professional staff to support the Office of the Independent Performance Auditor's (OIPA) mandate.

[Office of the Independent Performance Auditor's Staffing Needs and Structure.pdf](#)

[OIPA Audit Staffing Analysis.pdf](#)

[OIPA Proposed Org Chart.pdf](#)

+5. Discussion of SANDAG Board Policy No. 039

Discussion
/ Possible
Action

Chair David Zito, Audit Committee; Courtney Ruby, Independent Performance Auditor

The Audit Committee is asked to discuss Board Policy No. 039 to determine if any recommendations or amendments to the policy are needed.

[Discussion of SANDAG Board Policy No. 039.pdf](#)

[Att. 1 - Proposed SANDAG Board Policy No. 039.pdf](#)

6. Adjournment

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

+ next to an agenda item indicates an attachment

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

February 2, 2024

January 5, 2024, Meeting Minutes

[View Meeting Video](#)

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

The members of the Audit Committee and Office of the Independent Performance Auditor (OIPA) staff provided brief introductions to the new Public Members of the Audit Committee.

1. Non-Agenda Public Comments/Member Comments

The Original Dra, member of the public, spoke regarding potential upcoming fraud, waste, and abuse discussions.

There were no member comments.

2. Update- Office of the Independent Performance Auditor Activities

Courtney Ruby, Independent Performance Auditor (IPA), updated the Audit Committee on the active audits and investigations of the OIPA.

The Original Dra spoke regarding review of toll road operations along State Route 125 and Interstate 15.

Action: Information only.

Consent

3. Approval of Meeting Minutes

The Audit Committee was asked to approve its December 8, 2023, meeting minutes.

The Original Dra spoke regarding toll road operations.

Action: Upon a motion by Vice Chair Dave Druker (Board Member) and a second by Shawnee Pickney-Forrest (Public Member), the Audit Committee Board voted to approve the meeting minutes from its December 8, 2023, meeting.

The motion passed.

Yes: Chair Zito, Vice Chair Druker, and Public Member Pickney-Forrest.

No: None.

Abstain: None.

Absent: Public Member Agnes Wong Nickerson and Public Member Rowena Dorsey.

Reports

4. Discussion of SANDAG Board Policy No. 039

Chair Zito and IPA Ruby presented the item. The Audit Committee was asked to discuss Board Policy No. 039 to determine if any recommendations or amendments to the policy are needed.

The Original Dra spoke in support of the item.

Action: Discussion only.

5. Administrative and Audit Staffing Needs

IPA Ruby presented the item. The Audit Committee was asked to discuss the need for administrative and audit staff to support the OIPA.

The Original Dra spoke in support of IPA Ruby and a whistleblower program.

Action: Upon a motion by Vice Chair Druker and a second by Public Member Pickney-Forrest, the Audit Committee voted to recommend that the Board of Directors approve adding an additional staff member to the OIPA to support administrative needs.

The motion passed.

Yes: Chair Zito, Vice Chair Druker, and Public Member Pickney-Forrest.

No: None.

Abstain: None.

Absent: Public Member Wong Nickerson and Public Member Dorsey.

6. Proposed Revisions to Audit Plan

IPA Ruby presented the proposed revisions to the FY 2024 Audit Plan to support audit investigation needs.

The Original Dra spoke regarding transparency of audit reporting.

Action: Upon a motion by Vice Chair Druker and a second by Public Member Pickney-Forrest, the Audit Committee voted to recommend that the Board of Directors approve the revisions to the FY 2024 Audit Plan.

The motion passed.

Yes: Chair Zito, Vice Chair Druker, and Public Member Pickney-Forrest.

No: None.

Abstain: None.

Absent: Public Member Wong Nickerson and Public Member Dorsey.

7. Upcoming Meetings

The next Audit Committee meeting is scheduled for Friday, February 2, 2024.

8. Adjournment

Chair Zito adjourned the meeting at 4:40 p.m.

Confirmed Attendance at SANDAG Audit Committee Meeting

January 5, 2024

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

February 2, 2024

Office of the Independent Performance Auditor's Staffing Needs and Structure

Overview

There is a need to increase professional audit staff to support the Office of the Independent Performance Auditor (OIPA) in accomplishing its mandate. We have prepared a staffing analysis comparing budgetary and staffing data from eight governmental organizations including SANDAG's OIPA that demonstrates the OIPA's oversight responsibility is understaffed. The additional audit staff would increase auditing capacity both quantitatively and qualitatively thus maximizing productivity and organizational impact. It is important to note that an effective audit organization pays for itself by identifying areas for increase revenue, reduced cost, and operational efficiencies and enhancements.

Action: Discussion/Possible Action

The Audit Committee is asked to discuss the need for additional professional staff to support the Office of the Independent Performance Auditor's (OIPA) mandate.

Fiscal Impact:

Principal Independent Auditor: \$239,523 for annual salary and benefits for budgeting purposes (salary range is \$112,529-158,947)

Senior Independent Auditor: \$178,729 for annual salary and benefits for budgeting purposes (salary range is \$83,971-130,155).

Promotion to Deputy IPA increase of \$36,294 in salary and benefits.

Key Considerations

The OIPA's authority is to conduct performance audits and review internal controls of all departments, Boards, activities, and programs of the consolidated agency. The OIPA is the official body of SANDAG to investigate allegations of potential fraud, waste, and abuse identified by SANDAG staff or other stakeholders.

The OIPA's current audit staff includes 5 full-time audit staff members in addition to the appointed Independent Performance Auditor (IPA) to audit a \$1.2 billion dollar regional agency with the vast responsibilities of being both a metropolitan planning organization and a council of governments tasked with developing regional solutions impacting transportation, air quality, clean energy, economic development, goods movement, public health, public safety, housing, and more. Additionally, the annual portion of SANDAG's capital program budget is over \$565 million and represents 47.8 percent of the consolidated agency's overall budget. SANDAG's substantial responsibility for capital improvement projects contributes to increased audit risk due to the nature, volume, and complexities of such projects.

The Audit Committee is asked to discuss the need for additional professional audit staff to support the OIPA and make recommendations to the Board of Directors (BOD) to include authorize funding for 2 OIPA audit positions: a principal independent auditor and a senior independent auditor during the upcoming FY24-25 budget process.

A proposed organization chart is included for discussion purposes. It should be noted that the organization chart reflects a new position, Deputy Independent Performance Auditor, and the current Independent Principal Auditor, Lloyd Carter, is being promoted to this newly created position. The position Lloyd will be vacating will not be filled until funding is authorized during the FY24-25 budget process. Given OIPA's mandate and the depth and breadth of its scope and responsibility to perform independent examinations, audits and investigations, an organization structure that includes senior management level responsibility over audits and examinations is critical to ensuring adherence to Government Auditing Standards and adequate quality control systems are maintained over our work products. This type of structure is common among independent audit organizations. Lloyd Carter joined OIPA in January 2020

as a Principal Auditor and is exceptionally qualified to fulfill this new role with over 23 years of government auditing experience, including Supervising Management Auditor overseeing the entire audit division for the Bureau of Gambling Control at the California State Department of Justice.

Next Steps

If the Audit Committee supports the proposed increases for audit staffing, the Audit Committee would recommend to the BOD as part of the FY24-25 budget process to authorize the necessary funding for 2 OIPA audit positions: a Principal Independent Auditor and a Senior Independent Auditor and additional funding to cover the increased costs associated with the Deputy IPA position. Upon the Audit Committee's decision to forward such a recommendation to the BOD, the OIPA will immediately work with HR to commence recruitment for both new positions with the understanding an offer of employment is contingent upon authorized funding during the FY24-25 budget process. As such, all recruitment advertisements for these positions will identify that they are dependent upon authorized funding in the FY24-25 budget and will start no sooner than July 1, 2024.

Courtney Ruby, Independent Performance Auditor

- Attachments:
1. OIPA Audit Staffing Analysis
 2. OIPA Proposed Organization Chart



**San Diego Association of
Governments**

Office of the Independent Performance Auditor

**Audit Staff Analysis
and
Proposed Organization Chart**

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

Prepared by Michael Ryan, Associate Independent Auditor
and Lloyd Carter, Principal Independent Auditor

BACKGROUND

The SANDAG Office of the Independent Performance Auditor (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 continually monitoring trends from the whistleblower hotline. The OIPA's oversight function is designed to include timely reporting of significant issues to appropriate oversight authorities.

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. On January 1, 2018, a new California Assembly Bill (AB 805) required the creation of the Audit Committee and an independent performance auditor position.

Per AB 805 the OIPA has the authority to conduct or to cause to be conducted performance audits of all departments, offices, boards, activities, agencies, and programs of the consolidated agency. The OIPA is also the official body of SANDAG to investigate allegations of potential fraud, waste, and abuse identified by SANDAG staff or other stakeholders.

The OIPA is required to follow Generally Accepted Government Auditing Standards (GAGAS) as published by the United States Government Accountability Office.

HISTORY

Prior to the passing of AB 805 and the creation of the OIPA, SANDAG's auditor reported directly to management and the audit plan was approved by management. Consequently, the audit staff had no independence and no ability to report risk to the Board. As a result of AB 805, the IPA reports to the Audit Committee, is independent of management and presents an annual audit plan based upon a risk assessment for approval to the Audit Committee.

Performance audits in accordance with GAGAS are to examine the effectiveness, efficiency, economy, ethics and equity in government programs with the goal of implementing improvements and to protect the public interest. In addition, performance audits are to ensure compliance with relevant laws and regulations and evaluate if government programs are achieving their objectives and desired outcome.

One of the requirements of GAGAS is to have a competent audit staff. Competency is achieved through audit staff qualifications, composition and continuing professional education. The OIPA needs to ensure we have an adequate number of staff that collectively possess the necessary qualifications and competence to conduct the full range of independent audits, examinations and investigations required to accomplish our mandate.

In March of 2020, the OIPA had funding for the following positions:

- **1** Independent Performance Auditor (IPA)
- **2** Principal Management Internal Auditors
- **2** Audit interns¹.

At that time, a staffing analysis conducted by the OIPA was presented to the Board requesting an additional **5** positions:

- **2** Associate auditors
- **2** Entry level auditing positions
- **1** Administrative support position

The March 2020 staffing analysis was attached to the OIPA's proposed FY 2021 budget and it was approved by the Board of Directors (BOD). As of January 2024, 4 of 5 Board approved positions have been funded.

The purpose of this report is to provide an updated analysis to support the need for additional professional staff.

METHODOLOGY

The OIPA gathered budgetary and staffing data from eight governmental organizations including SANDAG for the analysis. The analysis focuses on the metric 'Dollar Oversight Responsibility per Auditor' (DORPA). This metric quantifies how much of the agency's budget each auditor would have oversight over. DORPA is defined as the budget divided by the number of auditors² (not including the chief/head auditor unless they are the only auditor). The higher the DORPA, the less auditor oversight per agency dollar. In addition, staff separately measured each agency's capital improvement project budget to differentiate auditor oversight for both total agency budget and exclusively capital improvement project (CIP) budget. The rationale is due to numerous interagency variations in the relative sizes of the CIP budget compared to the total budget. When determining the appropriate audit staffing level of the OIPA, adequate consideration must be given to SANDAG's large CIP budget.

Although budget information is readily available, the number of auditors in a particular agency is not always easily accessible. To gather this information, the OIPA reached out to various agencies. The reported number of auditors for each agency is either from available documentation or from responses provided by the agencies contacted.

¹ Interns are not included in the OIPA Full Time Equivalent (FTE) count.

² For example, if an agency has a budget of \$1 billion and has 10 auditors, the DORPA would be \$100 million.

RESULTS

SANDAG is a unique special district with a budget comparable to a midsize city, like Sacramento, that is accountable for regional planning and capital improvement projects. The OIPA compared SANDAG to governmental agencies that have some or all similarity in attributes, conditions, and availability of information such as:

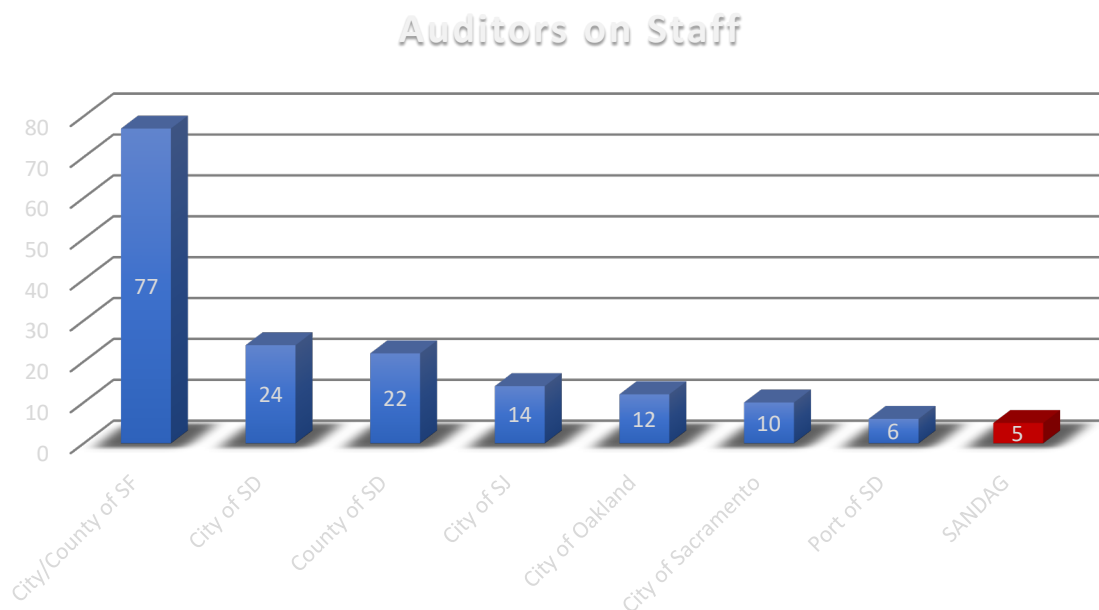
- Located within the State of California
- Local to San Diego
- Sufficiently large
- Available budgetary data
- Also were utilized in prior audit staffing analysis

The governmental agencies used for the analysis are as follows:

- County of San Diego
- Port of San Diego
- City of San Diego
- City of San Jose
- City and County of San Francisco
- City of Sacramento
- City of Oakland

Of the sample group, SANDAG has only five auditors, the least amount.

Figure 1



Agency Budgets

SANDAG currently has a budget of **\$1.18 billion** which is the second lowest of the sample group. However, SANDAG has relatively high CIP budget of **\$565.56 million** which is the third highest of the sample group³.

Figure 2

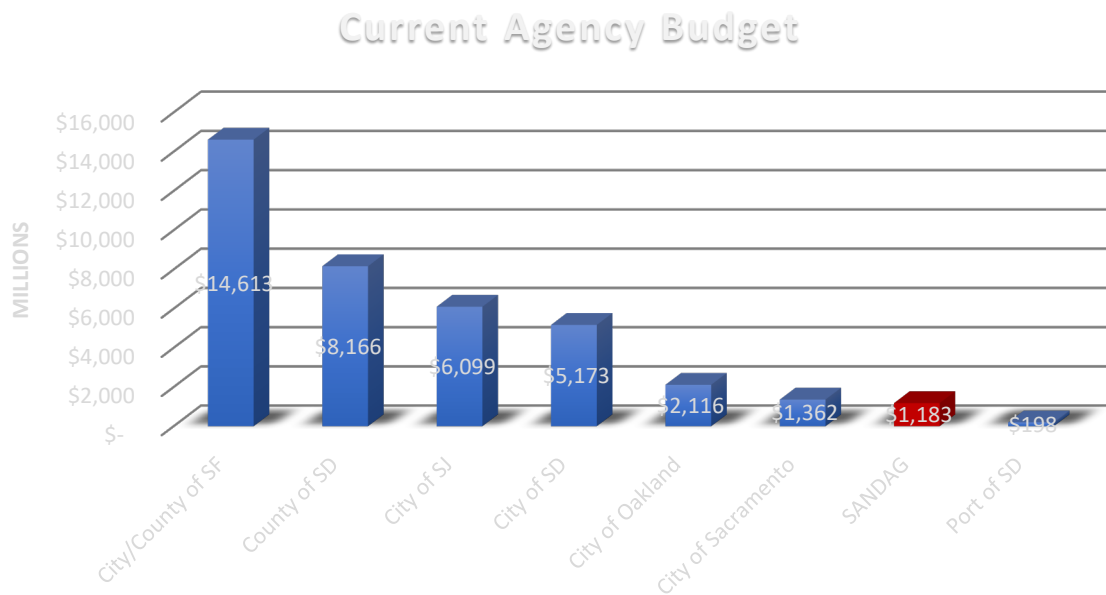
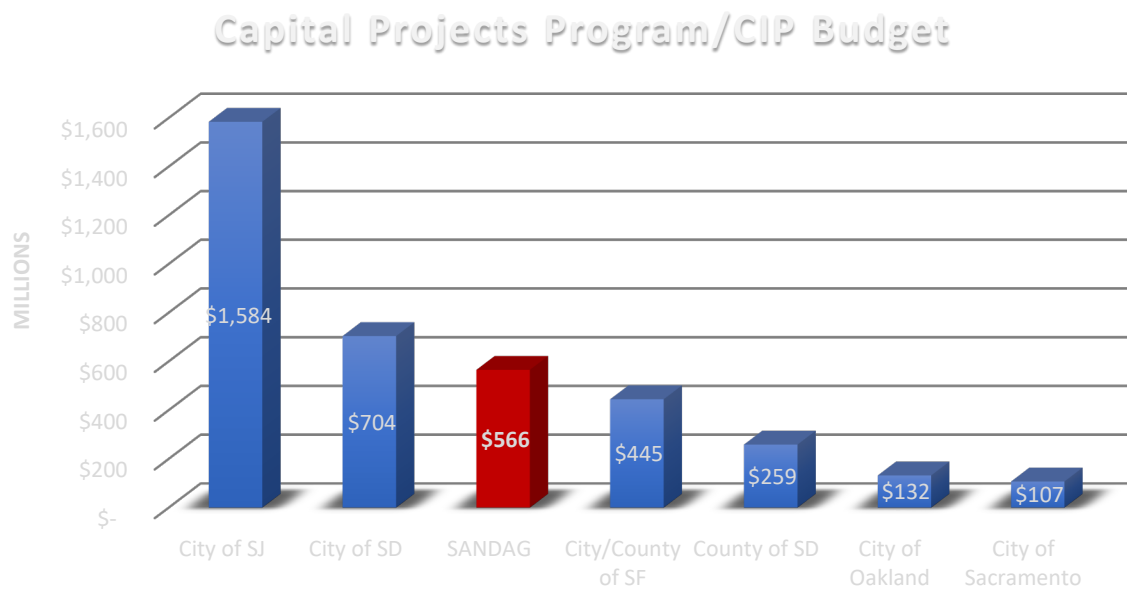


Figure 3

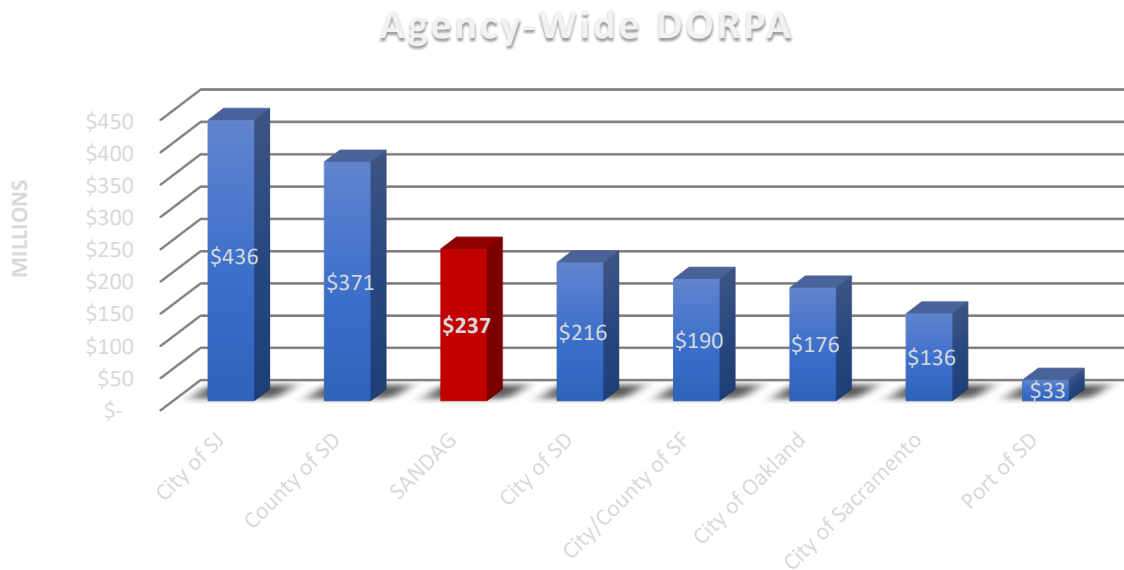


³ Total budget for CIP could not easily be determined in the Port of San Diego's budget book

Dollar Oversight Responsibility per Auditor (DORPA)

As stated previously, the metric being used to determine agency oversight levels is Dollar Oversight Responsibility per Auditor (DORPA), which is determined by taking an agency's budget and dividing it by the number of auditors. Among the sample group, SANDAG has the third highest agency DORPA at **\$236,538,252**.

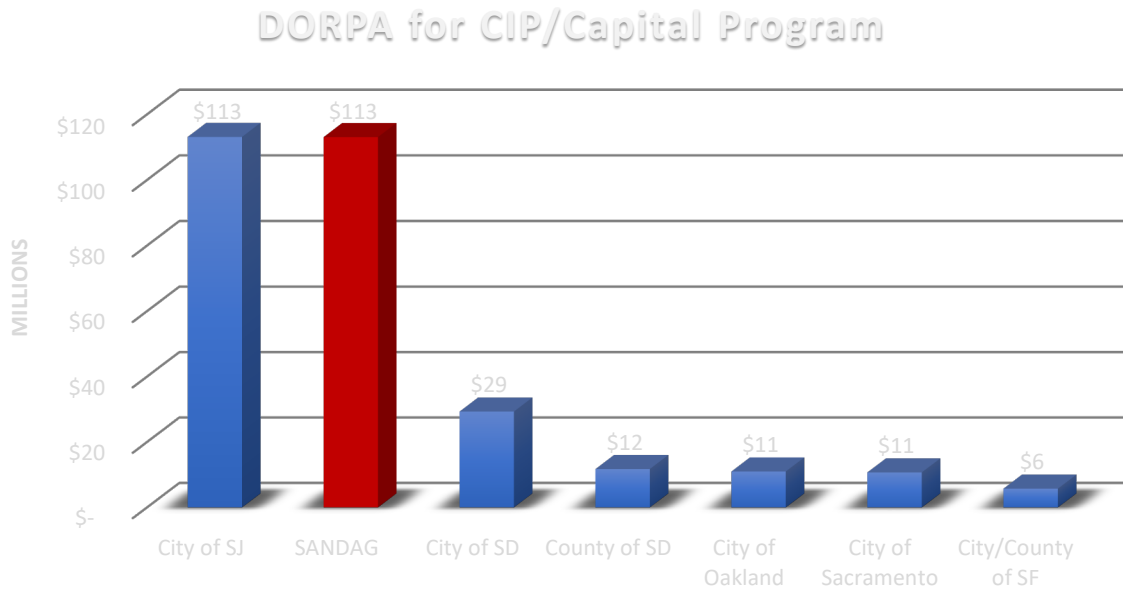
Figure 4



When using DORPA in the context of CIP or Capital Projects Programs, SANDAG has the second highest DORPA at **\$113,111,200⁴**. However, the rest of the agencies have vastly lower DORPAs for CIP. The next highest DORPA for CIP is the City of San Diego at **\$29,338,138** and the lowest is the City and County of San Francisco at **\$5,208,932**.

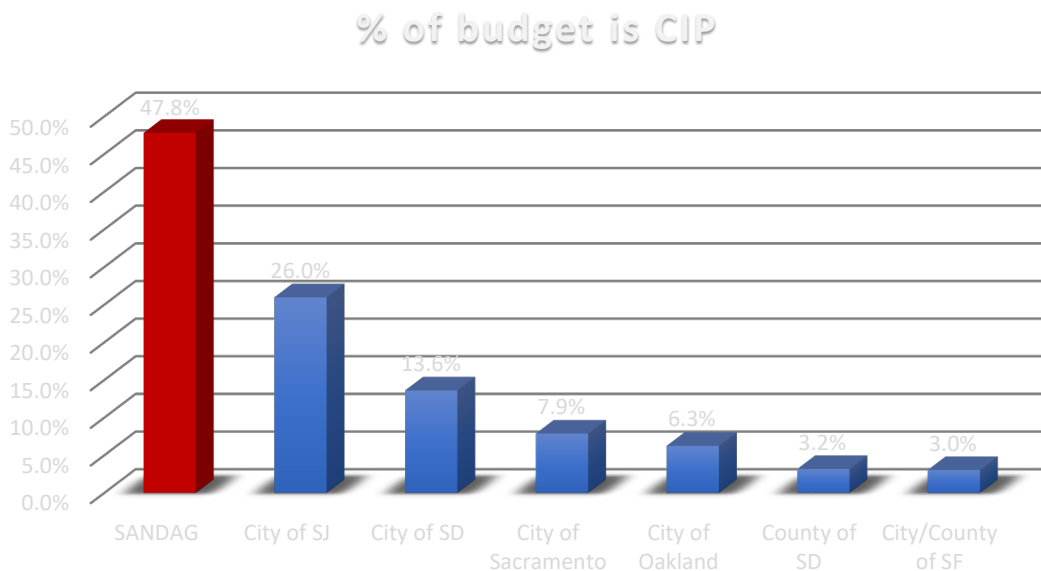
⁴ The highest is the City of San Jose at \$113.16 million

Figure 5



The obvious relative change in DORPA is due to SANDAG's CIP budget being disproportionately large in comparison to other agencies' budgets. **47.8%** of SANDAG's total budget goes toward CIPs, which is by far the highest of all the agencies in the analysis. The average is **19.6%** of the agency budget. It should be noted that capital projects are inherently riskier for an organization than operations.

Figure 6



To focus on local agencies in particular, the City and County of San Diego have far more oversight over their CIPs relative to SANDAG. To approximately match the City of San Diego's DORPA for CIPs, SANDAG would need to have **19** auditors and to approximately match the County of San Diego's DORPA, SANDAG would need to have **48** auditors.

OIPA Personnel Costs

The OIPA's current personnel costs are **\$1,334,374** which is **1.82%** of the agency's total personnel costs of \$73,127,056.

Figure 7

OIPA Personnel Costs vs. Agency Personnel Costs



CONCLUSION

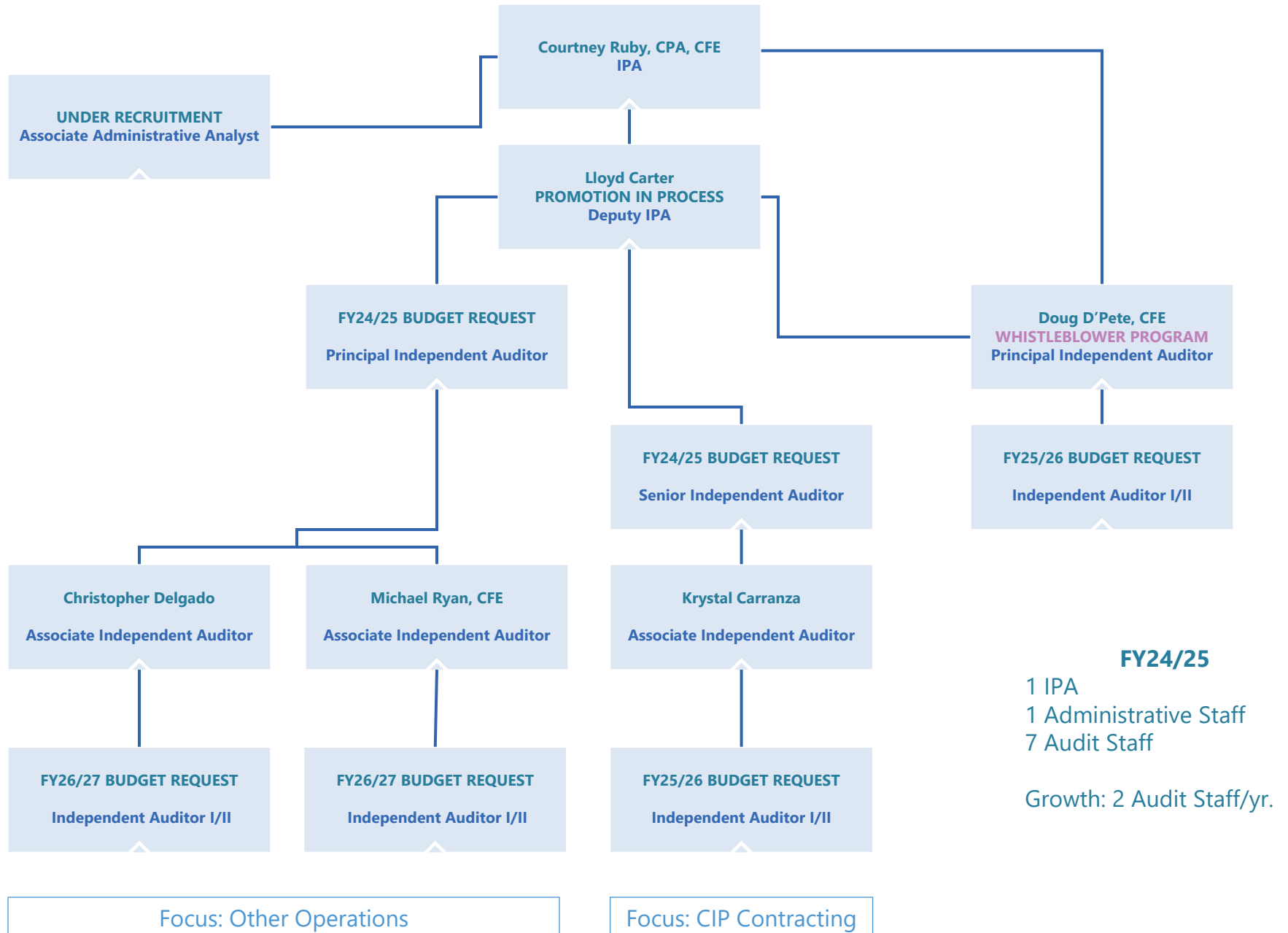
This analysis demonstrates that compared to other independent performance audit offices and based on DORPA for CIP⁵, OIPA is understaffed. At this time, an audit staff of 10-14 professionals for OIPA appears to be reasonable conclusion based upon this analysis. To that end OIPA is requesting 2 auditing positions for FY24-25 and will request 2 additional audit positions in each of the following two budget cycles to ensure OIPA's staffing needs are met and maintained.

The cost associated with adding 2 audit positions in FY24-25 is approximately \$418,000. The proposed OIPA organization chart is included as attachment 1 and details the positions to be requested by fiscal year.

⁵ Refer to figure 5

The risks associated in not adequately staffing OIPA are many, and the most important one is not providing sufficient agency oversight to meet the requirements of AB 805.

OFFICE OF THE INDEPENDENT PERFORMANCE AUDITOR PROPOSED ORGANIZATION CHART FY24/25 to FY26/27



February 2, 2024

Discussion of SANDAG Board Policy No. 039

Overview

In accordance with Assembly Bill 805 (Gonzalez, 2017), SANDAG Board Policy No. 039: Audit Policy Advisory Committee and Audit Activities (BP 039) was established to provide guidance on how to carry out the bill. Each year policies are reviewed and, if necessary, revised. Members of the Audit Committee previously discussed and proposed areas of the policy that would benefit revisions or clarifications and thus require Board of Directors action. These revisions were to be presented to the Executive Committee of the Board (Executive Committee) on December 8, 2023, however, at the November 3, 2023,

Executive Committee meeting it was requested that the newly appointed Independent Performance Auditor (IPA) review, comment, and confer with the Chair of the Audit Committee on the proposed revisions before being presented to the Executive Committee.

Action: Discussion/Possible Action

The Audit Committee is asked to discuss Board Policy No. 039 to determine if any recommendations or amendments to the policy are needed.

Fiscal Impact:

None.

Schedule/Scope Impact:

None.

Key Considerations

SANDAG Board Policy No. 039: Audit Policy Advisory Committee and Audit Activity is the document that provides direction on how to carry out the AB 805, as it relates to the Audit Committee and the Office of the Independent Performance Auditor.

The intent of the meeting today is for Chair Zito to review all the proposed revisions with the Audit Committee, given there is a new IPA and new Audit Committee members. The Chair will focus specifically on the area that most changes are being proposed: Section 4 – Selection of Audit Committee Members.

Members are asked to discuss and take possible action in regard to the following:

1. Public Membership Selection Process and composition of Selection Committee;
2. Public Members term limits and staggering of members terms;
3. Appointment of the Chair and Vice Chair; and
4. Addition of a Public Member to serve as an alternate.

Next Steps

The Audit Committee is asked to discuss and determine next steps including possible actions to move SANDAG Board Policy No. 039 proposed revisions forward.

Councilmember David Zito, Audit Committee Chair

Attachment: 1. Proposed SANDAG Board Policy No. 039 with Redline Changes



BOARD POLICY NO. 039

AUDIT POLICY ADVISORY COMMITTEE AND AUDIT ACTIVITIES

1. Purpose

The purpose of this policy is to specify the functions of the Audit Committee and the SANDAG Independent Performance Auditor.

2. Governance and Role of the Audit Committee

- 2.1 The Audit Committee shall be overseen by the SANDAG Board of Directors and shall govern itself in accordance with Public Utilities Code Sections 132351.4 and 132354.1, and the policies and procedures applicable to all SANDAG Policy Advisory Committees.
- 2.2 Membership of the Audit Committee shall be as set forth in Board Policy No. 002:
- 2.3 Policy Advisory Committee Membership. The Audit Committee shall consist of five voting members with two members of the Board of Directors and three members of the public, all of which shall be appointed by the Board of Directors. Due to the qualification requirements and selection process described in this policy, Audit Committee members and alternates shall be selected according to the processes below.
- 2.4 ~~The Chair of the Board will select~~The Audit Committee members themselves will select by a majority vote of the Committee which members of the Audit Committee will hold the Chair and Vice Chair positions on the Audit Committee ~~every two years or whenever a position is vacant~~for a term of one year.
- 2.5 The role of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities and provide a forum for pursuing the opportunities for improvements in operations, financial reporting and internal controls identified through the agency's audit products.

3. Authority of the Audit Committee

- 3.1 The Audit Committee may hear items within the subject areas of audits, internal controls and investigations into fraud, waste, or impropriety, and may be asked to provide actions or recommendations on other matters within the Audit Committee's purview. The responsibilities of the Audit Committee include:
 - 3.1.1 Recommend to the Board which firm to contract with to conduct the annual financial statement audits and oversee the conduct of such audits.
 - 3.1.2 Meet with management and the independent performance auditor to review and discuss SANDAG's annual financial statement audits, internal control reports and other audits performed by external auditors.

- 3.1.3 Review and oversee the implementation of corrective action to address noted audit deficiencies.
- 3.1.4 Based on the Board's direction regarding whether to hire an individual or firm, recommend to the Board which individual or firm to hire to carry out independent performance auditor responsibilities.
- 3.1.5 Recommend to the Board the annual compensation of the independent performance auditor.
- 3.1.6 Oversee the work of the independent performance auditor in preparing and issuing audit and investigative reports and other audit, review or attest activities.
- 3.1.7 Approve the annual audit plan after discussion with the independent performance auditor, pursuant to Public Utilities Code Section 132354.1(b), and make recommendations to the Board regarding the budget needed to carry out the annual audit plan of the independent performance auditor.
- 3.1.8 Monitor the implementation of the annual audit plan and provide an annual report to the Board.
- 3.1.9 Monitor the implementation of corrective action identified in audit and investigative reports and inform the Board when corrective action is insufficient or untimely.
- 3.1.10 Independently communicate with the IPA consistent with the limitations set forth in the Brown Act.
- 3.1.11 Conduct the independent performance auditor's annual performance evaluation against performance measures established and adopted by the Audit Committee.
- 3.1.12 Vote on whether to remove the independent performance auditor for cause including, but not limited to incompetence, dishonesty, unethical behavior, violation of state or federal laws, or failure to maintain required professional certifications; such removal being subject to an approving vote by two-thirds of the Audit Committee and the Board.
- 3.1.13 Recommend internal control guidelines to be adopted by the Board to prevent and detect financial errors and fraud based on the internal control guidelines developed by the State Controller pursuant to Government Code Section 12422.5 and the standards adopted by the American Institute of Certified Public Accountants.

4. Selection of Audit Committee Members

- 4.1 The Board members serving on the Audit Committee shall be appointed by the Board using the procedures in this subsection 4.1.
 - 4.1.1 The two Board members and any Board member alternates serving on the Audit Committee shall be recommended for appointment by the Chair of the Board. The Chair of the Board shall select Board members to recommend to the Board based on the following criteria:

- 4.1.1.1 The Board member shall have served on the Board for at least three years;
 - 4.1.1.2 The Board member shall have a basic understanding of the role of the Audit Committee; and
 - 4.1.1.3 The Board member shall express a willingness to work through the Audit Committee to pursue opportunities for improvements in operations, financial reporting, and internal controls identified through the agency's audit products.
- 4.1.2 The Board members recommended by the Chair of the Board shall be subject to approval by a majority vote of the Board.
- 4.1.3 Audit Committee members shall serve until their successors are appointed. In the event that the Board member who has been appointed to serve on the Audit Committee is no longer a primary or alternate member of the Board of Directors, the position shall be considered vacant. If and when vacancies in the voting membership of the Audit Committee occur, the same selection process as outlined above shall be followed to select a replacement.
- 4.1.4 Board members appointed to the Audit Committee shall serve a term of two years. At the completion of a term, eligible incumbent members will need to apply for reappointment for another term. In no case shall any member serve more than ~~five-six~~ years on the Audit Committee, but may reapply after a hiatus of a full term.
- 4.2 The public members serving on the Audit Committee shall be appointed by the Board using the procedures in this Subsection 4.2.
 - 4.2.1 Whenever there is a vacancy for a public member seat on the Audit Committee, application forms will be made available on the SANDAG website for persons interested in applying for an Audit Committee position. Applications shall be due within 30 days after the application forms are posted. Only candidates who submit an application by the deadline will be considered.
 - 4.2.2 Applicants shall possess the independence, experience, and technical expertise necessary to carry out the duties of the Audit Committee. This expertise includes, but is not limited to, knowledge of accounting, auditing, and financial reporting. The minimum professional standards for public members shall include at least ten years of experience as a certified public accountant or as a certified internal auditor, or ten years of other professional accounting, financial, or legal experience in audit management.
 - 4.2.3 ~~The candidates shall be recommended by a majority vote of a screening committee composed of a member of the Board selected by the Chair of the Board, the chief financial officer or finance director of a SANDAG member agency, and at least one outside financial expert appointed by the other two members of the screening committee and confirmed by the Board. A five~~ person Selection Committee shall be convened comprised of a Board Member or Board Member Alternate sitting on the Audit Committee , a

Public Member or Public Member Alternate sitting on the Audit Committee, SANDAG's ~~current~~ Independent Performance Auditor or an OIPA upper management level staff person, and SANDAG's Chief Financial Officer or an upper management level staff person from SANDAG Finance, and one outside government financial expert. The Chair of the Audit Committee, the Independent Performance Auditor, and the Chief Financial Officer shall appoint the members of the Selection Committee subject to the composition rules in this section. The outside government financial expert will be confirmed by the Board of Directors. The outside government financial expert may serve until replaced by the Board's appointment of a new outside government financial expert to the Selection Committee.

Persons serving on the screening committee shall sign a declaration establishing that they do not have a conflict of interest.

4.2.4 ~~The screening committee may interview one or more of the candidates. The screening committee shall submit its recommended nominee(s) for the position(s). The screening committee also may nominate alternates from among the applicants. The Selection Committee shall score the applicants against criteria which are informed by section 4.2.2 above and which are agreed upon by the Audit Committee.~~

4.2.5 ~~In the event that the screening committee is unable to recommend any of the applicants for any or all positions, or an insufficient number of applications have been received, the screening committee may recommend a supplemental process, subject to Board approval. The constraints set forth in the normal nomination process shall not be mandated to apply to the supplemental process. The Selection Committee may choose to interview applicants to help determine finalists to be considered, and the results of such interviews shall be incorporated into the final scoring.~~

4.2.6 ~~The public members nominated by the screening committee shall be subject to approval by a majority vote of the Board. Applicants scoring within no more than 20% of the top-scoring candidate shall be considered finalists.~~

4.2.7 ~~The applicants to be forwarded to the Board for approval shall be chosen by a random draw from the finalists.~~

~~4.2.7~~ 4.2.8 Audit Committee members shall serve until their successors are appointed. If and when vacancies in the voting membership of the Audit Committee occur, the same selection process as outlined above shall be followed to select a replacement to fill the remainder of the term.

4.2.9 ~~Public members appointed to the Audit Committee shall serve a term of two~~ three years. At least two months prior to the completion of a term, eligible incumbent members ~~will need to apply for reappointment for another term, may request reappointment for another term, and it will be at the discretion of the Selection Committee either to approve such request or require the full advertisement and selection process described above in this section. Other than instances in which a term is extended because of a delay in selecting a successor or to otherwise avoid having all three public members term out in the same year, members may not serve more than six~~

consecutive years on the Audit Committee, but may reapply following a hiatus of at least one full term. To avoid having all three public members termed out at the same time, the Selection Committee will be given the discretion to lengthen the term of a sitting public member by no more than one year. In no case shall any member serve more than five years on the Audit Committee.

4.2.10 A public member non-voting alternate shall also be selected, with a term pursuant to 4.2.98. Such public member alternate shall be chosen by the Selection Committee from volunteers among prior public members. Should no prior public member volunteer, the selection committee will select a member from finalists, per 4.2.4 above, not selected for Committee membership or a prior public member who has notified the Audit Committee in writing by the application deadline, per 4.2.1. In the event a prior public member serves as a non-voting alternate, consecutive service cannot exceed 4 terms (2 terms as a public member and 2 terms as a public member non-voting alternative) without a hiatus of a full term.

5. Selection of Independent Performance Auditor

- 5.1 The independent performance auditor shall serve a two-year term and shall be selected by the Board on the basis of qualifications and experience, which include, but are not limited to:
 - 5.1.1 At least ten years of experience performing audits under Government Audit Standards;
 - 5.1.2 At least five years of management experience;
 - 5.1.3 A Bachelors or higher degree in business, public administration, finance, accounting or a related field; and
 - 5.1.4 Possession of a Certified Public Accountant or Certified Internal Auditor license or certificate.

6. Scope of Authority and Responsibilities of Independent Performance Auditor

- 6.1 The independent performance auditor shall report to the Audit Committee and shall be independent of SANDAG's internal management and administration, except that SANDAG's Director of Finance role shall maintain administrative oversight of the IPA's monthly timesheets and tracking of annual leave.
- 6.2 The objective of the IPA is to serve as the Board of Directors oversight function that objectively evaluates and recommends improvements to SANDAG including prioritizing its efforts by continuously facilitating an objective risk assessment. The Independent Performance Auditor's audit functions are designed to include timely reporting of significant issues to appropriate oversight authorities.
- 6.3 The IPA may facilitate and conduct a risk assessment process to assist management to logically identify key risks within SANDAG and its components and shall annually present and discuss risk with the Committee to receive input and feedback. As part of the aforementioned process, the IPA shall receive input from SANDAG's executive

management and staff, the Committee, and the Board of Directors as to the risk factors that the Committee deems most important to SANDAG.

- 6.4 Based upon the results of the risk assessment, the independent performance auditor shall annually prepare an audit plan and conduct audits in accordance therewith. The independent performance auditor shall have authority to conduct, or to cause to be conducted, performance audits of SANDAG departments, offices, boards, activities, agencies, and programs and perform those other duties as may be required by the Board or as provided by the California Constitution and general laws of the state.
- 6.5 The IPA will oversee and conduct independent examinations, including audits, of SANDAG programs, functions, operations, or management systems and procedures. In performing such audits, the IPA will independently and objectively assess whether:
 - 6.5.1 Activities and programs being implemented have been authorized by the appropriate governing laws or codes, state or local law, or applicable federal law or regulations.
 - 6.5.2 Activities and programs are in compliance, properly conducted, and funds expended in accordance with the applicable laws.
 - 6.5.3 The departments, divisions, or agencies are acquiring, managing, protecting, and using its resources, including public funds, personnel, property, equipment, and space, economically, efficiently, equitably, and effectively, and in a manner consistent with the objectives intended by the authorizing entity or enabling legislation.
 - 6.5.4 The entity, programs, activities, functions, or policies are effective, including the identification of any causes of inefficiencies or uneconomical practices.
 - 6.5.5 The desired result or benefits are being achieved.
 - 6.5.6 Financial and other reports are being provided that disclose fairly, accurately, and fully all information required by law, to ascertain the nature and scope of programs and activities, and to establish a proper basis for evaluating the programs and activities including the collection of, accounting for, and depositing of revenues and other resources.
 - 6.5.7 Management has established adequate operating and administrative procedures and practices, fiscal and accounting systems, and an adequate system of controls or internal management controls.
 - 6.5.8 Indications of fraud, abuse, waste, misappropriation, or illegal acts are valid and need further investigation.
- 6.6 The IPA may also perform external reviews of contracts or service programs of entities that are awarded funds overseen by SANDAG.
- 6.7 The independent performance auditor shall from time to time advise the Audit Committee on existing and evolving governance practices that may be best suited for SANDAG.
- 6.8 The independent performance auditor shall follow the most recent version of

Generally Accepted Government Auditing Standards as published by the United States Government Accountability Office.

- 6.9 The Committee shall approve the processes pertaining to follow-up audit procedures, if appropriate. The IPA shall have procedures in place to track, monitor, and evaluate the status of identified control issues with a tracking mechanism and with consideration to the risk of each issue and the cost and benefit of various audit procedure alternatives.

All officers and employees of SANDAG shall furnish to the independent performance auditor unrestricted access to employees, information, and records, including electronic data, within their custody regarding powers, duties, activities, organization, property, financial transactions, contracts, and methods of business required to conduct an audit or otherwise perform audit duties. It is also the duty of any consolidated agency officer, employee, or agent to fully cooperate with the auditor, and to make full disclosure of all pertinent information, with the exception of information that is protected by law from disclosure.

- 6.10 The IPA shall hold data and information obtained during the course of its audit activities with due care and the appropriate level of confidentiality. Unless otherwise mandated by law, the IPA shall have authority to grant, limit, and restrict access to work papers and records.
- 6.11 The IPA shall communicate results of its work and otherwise known issues to management and the Committee. The IPA shall form and report appropriate opinions based on audit evidence. Management shall provide responses to issues in a prompt and efficient manner. Written reports may be distributed to the Committee, SANDAG's Management, and if appropriate for reports containing significant issues or when there is a disagreement with management other than minor in nature, to the Board of Directors. The IPA shall provide summary information to the Committee pertaining to issues resulting from audit procedures as well as known issues outside of the audit scope of review. Additionally, the IPA shall provide the Committee with an annual assessment as to the effectiveness of management's attention to resolving identified control issues.
- 6.12 The independent performance auditor shall prepare a proposed budget and submit it to the Audit Committee for a recommendation to the Board of Directors for its approval 180 days prior to the beginning of each fiscal year or as otherwise requested by the Director of Finance.
- 6.13 The independent performance auditor shall have the power to appoint, employ, and remove assistants, employees, and personnel as deemed necessary for the efficient and effective administration of the affairs of the independent performance auditor. The independent performance auditor may prescribe the duties, scope of authority, and qualifications of employees and consultants overseen by the independent performance auditor. The independent performance auditor's authority shall be subject to the annual audit plan and the budget approved by the Board, SANDAG rules and policies related to the management and hiring of SANDAG employees and consultants, and the scope of the independent performance auditor's purview as determined by the Board.

- 6.14 The independent performance auditor may investigate any material claim of financial fraud, waste, or impropriety within SANDAG and for that purpose may summon any officer, agent, or employee of the consolidated agency, any claimant, or other person, and examine him or her upon oath or affirmation relative thereto. The independent performance auditor will conduct investigations generally following the procedures recommended by the Association of Certified Fraud Examiners' Fraud Examiners Manual for any allegations of financial fraud, waste or impropriety. ^(L)_{SEP} Prior to questioning any person under oath, the independent performance auditor shall advise the members of the Audit Committee of that intention, seek legal counsel from the Office of General Counsel or outside counsel under contract to SANDAG regarding the relevant legal issues, and document the reasons why the questioning must be done under oath instead of by some other form of affirmation.
- 6.15 The independent performance auditor shall coordinate audit functions such that there is no duplication of effort between the audits undertaken by the independent performance auditor and audits undertaken by the Independent Taxpayer Oversight Committee.
- 6.16 Pursuant to Government Code section 8546.7, when the amount of a contract will exceed \$10,000, SANDAG and the State Auditor, at the request of SANDAG or as part of any audit of SANDAG, have authority to examine and audit a contracting party for a period of three years after SANDAG's final payment on the contract, whether or not audit language is included in the contract document. As an additional measure, all SANDAG contracts with consultants, vendors, or agencies in excess of \$25,000 in aggregate within a fiscal year, which call for a contracting party to provide goods or services to SANDAG over a period of time, will be prepared with an adequate audit provision to allow the independent performance auditor access to the entity's records needed to verify compliance with the terms specified in the contract. The intent of this provision is to put parties contracting with SANDAG on notice that the independent performance auditor will have the right to audit both the party's accounting methods and performance on such contracts
- 6.17 Results of all audits and reports shall be made available to the public in accordance with the requirements of the California Public Records Act (Chapter 3.5 [commencing with Section 6250] of Division 7 of the Title 1 of the Government Code). Final versions of formal reports also shall be posted on the SANDAG website.

- 6.18 All materials or services needed by the independent performance auditor shall be procured using an open and competitive basis with solicitation of proposals from the widest possible number of qualified firms as prescribed by SANDAG procedures for procurement. The scope of work of all such consultant work shall be subject to approval by the independent performance auditor prior to any such solicitation.

Adopted: December 2017

Amended: January 2019

Amended: September 2019

Amended: 2023