



Audit Committee - Special Session Agenda

**Thursday, May 22, 2025
1 p.m.**

Welcome to SANDAG. The Audit Committee - Special Session meeting scheduled for Thursday, May 22, 2025, will be held in person in the SANDAG Board Room. While Audit Committee - Special Session 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.

SANDAG

Audit Committee

MEMBERSHIP

The Audit Committee is composed of five voting members with two members of the Board of Directors and three members of the public, whose role 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. 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 Audit Committee generally meets at 9 a.m., on the first Friday of the month.

Staff contact: Courtney Ruby (619) 595-5323, courtney.ruby@sandag.org

PRIMARY BOARD MEMBERS

Jack Fisher, Chair
Councilmember, City of Imperial Beach

Luz Molina, Vice Chair
Councilmember, City of National City

PUBLIC MEMBERS

Agnes Wong Nickerson

Rowena Dorsey

Shawnee Pickney-Forrest

ALTERNATE BOARD MEMBERS

David Zito
Councilmember, City of Solana Beach

ALTERNATE PUBLIC MEMBERS

Audit Committee

Thursday, May 22, 2025

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 events.

Consent

+3. Approval of Meeting Minutes

Approve

Francesca Webb, SANDAG

The Audit Committee is asked to approve the minutes from its March 7, 2025, meeting.

[Meeting Minutes](#)

Reports

+4. Fiscal Year 2024 Annual Comprehensive Financial Report and Other Financial and Compliance Audits

Information

Kimberly Trammel, SANDAG; Jennifer Farr, Davis Farr LLP

Jennifer Farr will present an overview of the Fiscal Year 2024 Annual Comprehensive Financial Report and other matters in compliance with the Statement of Auditing Standards 114.

[Fiscal Year 2024 Annual Comprehensive Financial Report and Other Financial and Compliance Audits](#)

[Att. 1 - FY 2024 SANDAG Generally Accepted Government Auditing Standards Report](#)

[Att. 2 - FY 2024 SANDAG Single Audit Report](#)

[Att. 3 - FY 2024 Coronado Toll Bridge Report](#)

[Att. 4 - FY 2024 SANDAG National Transit Database AUP Report](#)

[Att. 5 - FY 2024 Statement of Auditing Standards 114 Letter](#)

[Att. 6 - FY 2024 Transportation Development Act Reports](#)

[Presentation_A](#)

[Presentation_B](#)

+5. Summary of the Performance Audit of SANDAG's Sole Source Procurement Process

Discussion

+5A. Performance Audit of SANDAG's Sole Source Procurement Process

Courtney Ruby, Independent Performance Auditor

The Independent Performance Auditor and staff will present a summary of the Performance Audit of SANDAG's Sole Source Procurement Process for the audit period of July 1, 2022, to June 30, 2024, including the audit results and recommendations.

[Final Sole Source Procurement Process Audit Report Presentation](#)

+5B. Management's Response and Corrective Action Plan

Mario Orso, SANDAG

Management will present their response to the Performance Audit of SANDAG's Sole Source Procurement Process and proposed corrective action plan.

[Management Response to Sole Source Procurement Process Audit Att. 1 - Management Corrective Action Plan - Sole Source Procurement Process Audit](#)

Adjournment

6. Adjournment

The next Audit Committee meeting is scheduled for Friday, June 6, 2025, at 9 a.m.

+ next to an agenda item indicates an attachment

May 22, 2025

March 7, 2025, Meeting Minutes

[View Meeting Video](#)

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

1. Non-Agenda Public Comments/Member Comments

Public Comments: Purita Javier, Cesar Javier, Truth.

Member Comments: David Zito (Board Member), Dawn Vettese, SANDAG.

2. Office of the Independent Performance Auditor Activities

Independent Performance Auditor Courtney Ruby presented an update on the Office of the Independent Performance Auditor's activities and other events.

Public Comments: Truth.

Action : Information.

Consent

3. Approval of Meeting Minutes

The Audit Committee approved the minutes from its meeting on February 7, 2025.

Public Comments: None.

Action: Upon a motion by Shawnee Pickney-Forrest (Public Member), and a second by Chair Fisher, the Audit Committee voted to approve the meeting minutes.

The motion passed.

Yes: Chair Fisher, Vice Chair Luz Molina (Board Member), Rowena Dorsey (Public Member), Shawnee Pickney-Forrest.

No: None.

Abstain: None.

Absent: Agnes Wong-Nickerson (Public Member).

Reports

4. Enterprise Resource Planning (ERP) Implementation Status Update

Director of Contracts and Procurement Services Kelly Mikhail and Director of Accounting and Finance Kimberly Trammel presented an update on the implementation status of the ERP system.

Public Comments: Cesar Javier.

Action: Information.

5. Revisions to the Proposed Office of the Independent Performance Auditor FY 2026 Budget

The Audit Committee was asked to review the revised Office of the Independent Performance Auditor FY 2026 budget and recommend its inclusion in SANDAG's budget submittal to the Board of Directors.

Public Comments: Cesar Javier.

Action: Upon a motion by Shawnee Pickney-Forrest and a second by Rowena Dorsey, the Audit Committee voted to recommend that the Board of Directors include the revised Office of the Independent Performance Auditor FY 2026 budget in SANDAG's budget submittal to the Board of Directors.

The motion passed.

Yes: Chair Fisher, Vice Chair Molina, Rowena Dorsey, Shawnee Pickney-Forrest.

No: None.

Abstain: None.

Absent: Agnes Wong-Nickerson.

6. Office of the Independent Performance Auditor Whistleblower Hotline Operational Update

Independent Performance Auditor Courtney Ruby gave an update to the Audit Committee on the status of the Whistleblower Hotline program.

Public Comments: Cesar Javier.

Action: Information.

7. Proposed Revisions to the FY 2025 Annual Audit Plan

Independent Performance Auditor Courtney Ruby proposed revisions to the Office of the Independent Performance Auditor FY 2025 Annual Audit Plan for the Audit Committee to discuss and approve.

Public Comments: None.

Action: Upon a motion by Vice Chair Molina and a second by Shawnee Pickney-Forrest, the Audit Committee approved the proposed revisions to the Office of the Independent Performance Auditor FY 2025 Annual Audit Plan.

The motion passed.

Yes: Chair Fisher, Vice Chair Molina, Rowena Dorsey, Shawnee Pickney-Forrest.

No: None.

Abstain: None.

Absent: Agnes Wong-Nickerson.

8. Closed Session: Conference with Security Operations Manager Pursuant to Government Code Section 54957(a)

Public Comments: None.

Chair Fisher adjourned the meeting to closed session at 10:36 a.m.

Chair Fisher resumed the open session at 11:18 a.m.

Deputy General Counsel Amberlynn Deaton reported that the Audit Committee met in closed session with the Director of Business Information and Technology Services and agency counsel to discuss critical infrastructure controls and critical infrastructure information relating to cybersecurity. There were no reportable actions.

9. Adjournment

The next Audit Committee meeting is scheduled for Friday, April 4, 2025, at 9 a.m.

Chair Fisher adjourned the meeting at 11:19 a.m.

Confirmed Attendance at Audit Committee Meeting

Jurisdiction/Organization	Name	Member/ Alternate	Attended
Board Member	Jack Fisher, Chair	Primary	Yes
Board Member	Luz Molina, Vice Chair	Primary	Yes
Public Member	Shawnee Pickney-Forrest	Primary	Yes
Public Member	Agnes Wong Nickerson	Primary	No
Public Member	Rowena Dorsey	Primary	Yes
Board Member	David Zito (Alternate)	Alternate	Yes

DRAFT

May 22, 2025

Fiscal Year 2024 Annual Comprehensive Financial Report and Other Financial and Compliance Audits

Overview

The independent certified public accounting firm of Davis Farr LLP has concluded the annual financial audit of SANDAG for the fiscal year ended June 30, 2024. The Annual Comprehensive Financial Report (ACFR) can be downloaded at [sandag.org/FY24 ACFR](https://sandag.org/FY24ACFR).

In addition to the ACFR, Davis Farr LLP issued the reports of other annual financial audits of SANDAG for the fiscal year ended June 30, 2024. The Transportation Development Act (TDA) audits, SANDAG Single Audit Report and the SANDAG Agreed-Upon Procedures (AUP) Performed with Respect to the National Transit Database (NTD) Report are provided as attachments to this report.

Key Considerations

Annual Comprehensive Financial Report

The ACFR presents the financial position and activity of SANDAG and the three component units, which include the San Diego County Regional Transportation Commission, SourcePoint, and the Automated Regional Justice Information System. The independent auditor expressed a qualified opinion on SANDAG's FY 2024 basic financial statements. The basis for the qualified opinion relates to the Toll Road (SR125) revenues. Due to the implementation of a new back-office system, there were difficulties in accounting for certain toll road transactions during the fiscal year ended June 30, 2024. As a result, the independent auditor was unable to obtain sufficient appropriate audit evidence supporting SR 125 Toll Road revenue reported in the fund. Consequently, they were unable to determine whether any adjustment to this amount was necessary. The other funds and component units included in the ACFR, except for the SR125 fund as the basis for the qualified opinion, were presented fairly in all material respects in accordance with accounting principles generally accepted in the United State of America.

The Fiscal Year (FY) 2023 audit also resulted in a qualified audit opinion that the auditors stated was based on a lack of sufficient appropriate audit evidence supporting the toll road revenues and account receivable balances due to reporting limitations in the back-office system implemented in 2022.

SANDAG was able to produce additional reports on the Toll Road accounts receivable and account balances for FY 2024 that were responsive to the questions raised by the auditors during the FY 2023 audit. While the qualified opinion continued into FY 2024, the auditors concluded that the FY 2023 finding on Toll Road Back-Office System Errors (2023-002) has been sufficiently resolved with the following statement: "While the toll road back-office system still contains known errors, SANDAG has developed

Action: Information

Jennifer Farr will present an overview of the Fiscal Year 2024 Annual Comprehensive Financial Report and other matters in compliance with the Statement of Auditing Standards 114.

Fiscal Impact:

In Fiscal Year 2024, approximately \$479.4 million was the balance of construction in progress for various regional transportation infrastructure improvement projects.

Schedule/Scope Impact:

The Annual Comprehensive Financial Report provides the financial position and activity of SANDAG and the three component units, which include the San Diego County Regional Transportation Commission, SourcePoint, and the Automated Regional Justice Information System. All other audit reports were issued, resulting in no delays of funding.

controls to monitor and detect system errors in a timely manner. SANDAG ultimately plans to replace the system.” Based on the additional reporting provided, the auditors also concluded that there were no material misstatements in customer account balances at June 30, 2024.

In compliance with Generally Accepted Government Auditing Standards, the independent auditor assessed SANDAG’s internal control over financial reporting and performed tests of the agency’s compliance with certain provisions of laws and regulations during the fiscal year 2024 audit. The Independent Auditor’s Report On Internal Control Over Financial Reporting and On Compliance and Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards is included as Attachment 1. Two internal control concerns were identified as part of the FY 2024 audit:

1) The auditors identified misstatements in the accounting records that needed to be corrected in three areas related to debt, capital assets, and construction in progress.

2) Two quarterly progress reports for federal grant funds were submitted late; one by a day and one by two weeks.

The two audit findings for FY 2024 and the corrective action plans to ensure the improvement of the controls in the future are described in more detail in Attachment 1.

On page 14 of the Single Audit Report (Attachment 2), an update on the FY 2023 audit findings is provided. The FY 2023 audit had three findings, two of which have been resolved.

Transportation Development Act

The TDA audit includes recipients of TDA funds, State Transit Assistance (STA) funds, and the County of San Diego Local Transportation Fund (LTF), all of which are required to be submitted to the State Controller’s Office within 180 days after fiscal year-end.

TDA fund audits are required under California Public Utilities Code Section 9924. An additional 90 days (or more given extenuating circumstances) may be approved by SANDAG for those TDA recipients that require more time to complete the audit.

A total of 14 audits were performed including a portion of claimants that requested an extension. At the December 13, 2024 Board of Directors’ meeting, extension requests were approved for SANDAG and the City of Santee until March 27, 2025. All claimants were issued an unmodified (clean) opinion.

The STA audits are required under California Code of Regulations Section 6751. There were no exceptions to the County State Transit Assistance Fund.(STAF) or Metropolitan Transit System STAF reports.

The County LTF audit is required under California Code of Regulations Section 6661. There were no exceptions to this report.

SANDAG Single Audit

In accordance with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, a single audit must be performed for any organization that expends \$750,000 or more of federal funds. The independent auditor expressed an unmodified opinion on compliance over major programs. In FY 2024, SANDAG had \$300,659,646 in federal award expenditures. Please reference the Schedule of Findings and Questioned Costs (page 11 of Attachment 2) for the two findings mentioned above, two material weaknesses identified for internal control over financial reporting.

Next Steps

Since no modified opinions were issued for TDA, SANDAG will continue to administer TDA allocations to all claimants who participated in the audit. SANDAG will work toward implementing the corrective actions identified.

Kimberly Trammel, Director of Accounting, and Finance

Attachments: 1. FY 2024 SANDAG Generally Accepted Government Auditing Standards Report
2. FY 2024 SANDAG Single Audit Report
3. FY 2024 Coronado Toll Bridge Report
4. FY 2024 SANDAG National Transit Database AUP Report
5. FY 2024 Statement of Auditing Standards 114 Letter
6. FY 2024 Transportation Development Act Reports

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

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

Independent Auditor's Report

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of San Diego Association of Governments (SANDAG), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise SANDAG's basic financial statements, and have issued our report thereon dated March 31, 2025.

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described below, we identified a certain deficiency in internal control that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below as item 2024-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below as item 2024-002 to be a significant deficiency.

(2024-001) Adjustments Detected During the Audit

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

- To correct the deferred refunding loss related to the 2023A bond issuance by \$6,489,686.
- To correct construction in progress in the South Bay Expressway fund in the amount of \$738,015.
- To add back capital assets removed in error in the ARJIS fund in the amount of \$10,098,973.

Potential Effect

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

Recommendation

Auditing standards indicate that material adjustments identified through the audit process are evidence of a weakness in SANDAG's internal control structure. Efforts should be made to enhance SANDAG's year-end closing procedures to include areas that resulted in audit adjustments.

Management's Comments Regarding Corrective Actions Planned

SANDAG concurs with the auditor's recommendation and plans to implement additional analysis and review during the year-end process to improve the integrity of the data for financial reporting as well as promote continued training for staff on complex accounting transactions. New tools developed during this year-end close can be utilized going forward to help reduce any future audit adjustments. Management will strengthen communication with user departments to ensure accurate reporting of capital assets for financial reporting. In addition, SANDAG also implemented the Capital Asset module in the new ERP system during our year-end close process which going forward will further strengthen our internal controls for capital assets.

(2024-002) Reporting Requirements for Federal Awards

Program: Federal-State Partnership for Intercity Passenger Rail

Assistance Listing No.: 20.326

Federal Grantor: Department of Transportation – Federal Railroad Administration

Passed-through: N/A – Direct Assistance

Award No.: 69A36522403250FSPCA

Criteria

Per the grant requirements, the Grantee is required to submit one completed progress report quarterly (totaling four annually), in the form/format provided by the Federal Railroad Administration (FRA). For the duration of the Project Performance Period, the Grantee must report for the periods of: January 1 – March 31; April 1 – June 30; July 1 – September 30; and October 1 – December 31.

The Grantee should furnish one copy of the completed progress report to the assigned FRA Grant Manager on or before the thirtieth (30th) calendar day of the month following the end of the quarter for which the report is submitted.

Condition

During our audit, we noted two instances of non-compliance regarding the timeliness of required quarterly reporting for the Federal-State Partnership for Intercity Passenger Rail Program grant. The instances of non-compliance are as follows:

- Quarter 3 Report – due April 30, 2024, submitted May 1, 2024
- Quarter 4 Report – due July 30, 2024, submitted August 13, 2024

Questioned Costs

No questioned costs were identified as a result of our procedures.

Effect

As a result of the untimely submission of required quarterly reports for the Federal-State Partnership for Intercity Passenger Rail Program grant, compliance with federal grant reporting requirements was not met.

Cause

The delays in reporting were due to weaknesses in SANDAG's internal controls for tracking and ensuring timely submission of grant-related reports. The existing system did not sufficiently flag the required reporting deadlines, leading to missed timelines.

Recommendation

We recommend SANDAG enhance the system of internal controls for tracking reporting requirements to ensure timely reporting as required by the grant agreements.

Management's Comments Regarding Corrective Actions Planned

We concur with the auditor's recommendation to enhance internal controls, ensuring compliance with timely reporting as required by the grant agreements. Calendar reminders will be added to staff's calendars, and multiple levels will be notified of the reporting submissions.

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

(1) Trial Balance Enhancements

During the audit for the fiscal year ended June 30, 2024, we noted the trial balance produced by the ERP system did not agree to the presentation of the account balances in the financial statements, primarily with the presentation of expenses. For example, ARJIS expenses are recorded in the ERP system at a summary level and then broken out into multiple expense categories for financial statement presentation.

Recommendation

We recommend adding accounts to the ERP system to mirror the presentation in the financial statements. This would eliminate potential errors from manual adjustments made during the financial statement preparation process. Additionally, the financial statements would be supported by the ERP system, allowing for a better audit trail and ease of retaining historical data without additional explanation and support for the differences between the account balances.

(2) Information Systems Enhancements and Controls

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

Service Level Agreements

Based on our inquiry, it does not appear that IT Management reviews Service Level Agreements for third-party vendors whose services have an impact on financial reporting on a regular basis to ensure services provided by third-party vendors are being provided at levels in accordance with contracted agreements regarding the security, availability, and processing integrity of the platform.

Recommendation

We recommend IT Management implements a review of third-party vendors whose services impact financial reporting on at least an annual basis to ensure Service Levels provided have been adequate to meet the needs of SANDAG's operations. The review should include elements to determine whether security levels, availability (uptime) of the platform, and processing integrity (completeness, validity, timeliness, accuracy) were at adequate levels to support SANDAG's operations.

Report on Compliance and Other Matters


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

SANDAG's Response to Findings

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

Purpose of this Report

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

A handwritten signature in blue ink that reads "Davis Fan".

Irvine, California
March 31, 2025

**SAN DIEGO ASSOCIATION OF GOVERNMENTS
SAN DIEGO, CALIFORNIA**

**SINGLE AUDIT REPORT ON EXPENDITURES
OF FEDERAL AWARDS**

Year ended June 30, 2024

SAN DIEGO ASSOCIATION OF GOVERNMENTS
SINGLE AUDIT REPORT ON EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2024

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

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

Independent Auditor's Report

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of San Diego Association of Governments (SANDAG), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise SANDAG's basic financial statements, and have issued our report thereon dated March 31, 2025.

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying *schedule of findings and questioned costs* as item 2024-001 to be a material weakness.

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

Report on Compliance and Other Matters

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

SANDAG's Response to Findings

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

Purpose of this Report

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

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

Irvine, California
March 31, 2025

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the San Diego Association of Governments (SANDAG) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on SANDAG's major federal programs for the year ended June 30, 2024. The SANDAG's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, SANDAG complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of SANDAG and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the SANDAG's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to SANDAG's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on SANDAG's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the SANDAG's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding SANDAG's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the SANDAG's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of SANDAG's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiency in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2024-002 to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed. *Government Auditing Standards* requires the auditor to perform limited procedures on SANDAG's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. SANDAG's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, discretely presented component unit, and the aggregate remaining fund information of SANDAG as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise SANDAG's basic financial statements. We issued our report thereon, dated March 31, 2025, which contained a qualified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements and certain additional procedures including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Irvine, California
March 31, 2025

SAN DIEGO ASSOCIATION OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2024

Federal Grantor/ Program or Cluster Title	Assistance Listing Number	Grant Identification Number	Federal Expenditures	Passed Through to Subrecipients
Department of Transportation				
Federal Highway Administration				
Passed through California Department of Transportation:				
Highway Planning and Construction	20.205	74A0817	\$ 5,118,809	\$ -
Highway Planning and Construction	20.205	STPL-6066(162)	642,647	318,566
Highway Planning and Construction	20.205	STPL-6066(172)	5,643	-
Highway Planning and Construction	20.205	STPL-6066(190)	685,896	-
Highway Planning and Construction	20.205	STPL-6066(198)	111,851	-
Highway Planning and Construction	20.205	CMLG-6066(180)	12,404,494	6,577,840
Highway Planning and Construction	20.205	CML-6066(164)	244,364	-
Highway Planning and Construction	20.205	ATPL-6066(129)	3,738,824	-
Highway Planning and Construction	20.205	ATPL-6066(130)	7,295,789	-
Highway Planning and Construction	20.205	ATPL-6066(137)	776,599	-
Highway Planning and Construction	20.205	ATPL-6066(140)	745,187	-
Highway Planning and Construction	20.205	ATPL-6066(151)	44,409	-
Highway Planning and Construction	20.205	RSTPL-6066(158)	898,938	-
Highway Planning and Construction	20.205	RSTPL-6066(163)	283,159	-
Highway Planning and Construction	20.205	STPBIPL-6066(170)	8,299,197	-
Highway Planning and Construction	20.205	STPL-6066(201)	94,283	-
Highway Planning and Construction	20.205	STPL-6066(205)	75,695	-
Highway Planning and Construction	20.205	STPL-6066(206)	82,830	-
Highway Planning and Construction	20.205	STPL-6066(209)	400,000	-
Highway Planning and Construction	20.205	STPL-6066(210)	104,923	-
Highway Planning and Construction	20.205	STPL-6066(211)	79,626	-
Highway Planning and Construction	20.205	STPL-6066(212)	2,660	-
Highway Planning and Construction	20.205	PIO #108	2,942	-
COVID-19 - Highway Planning and Construction	20.205	ATPL-6066(129)	4,835,670	-
COVID-19 - Highway Planning and Construction	20.205	ATPL-6066(130)	740,059	-
Total Highway Planning and Construction			47,714,494	6,896,406
Direct Programs:				
Highway Research and Development Program	20.200	N/A	404,252	-
Total Highway Research and Development Program			404,252	-
Safe Streets and Roads for All	20.939	N/A	1,303,072	-
Total Safe Street and Roads for All			1,303,072	-
Motor Carrier Safety Administration				
Border Enforcement Grants	20.233	N/A	629,880	-
Total Border Enforcement Grants			629,880	-
Federal Railroad Administration				
Direct Programs:				
Federal-State Partnership for Intercity Passenger Rail	20.326	N/A	3,916,197	-
Total Federal-State Partnership for Intercity Passenger Rail			3,916,197	-
Federal Transit Administration				
Passed through California Department of Transportation:				
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505	74A0817	2,986,389	7,559

See accompanying notes to the Schedule of Expenditures of Federal Awards

SAN DIEGO ASSOCIATION OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Continued

Year ended June 30, 2024

Federal Grantor/ Program or Cluster Title	Assistance Listing Number	Grant Identification Number	Federal Expenditures	Passed Through to Subrecipients
Direct Programs:				
Federal Transit Cluster:				
Federal Transit - Capital Investment Grants	20.500	N/A	225,583,636	-
Federal Transit - Formula Grants	20.507	N/A	12,401,888	-
Total Federal Transit Cluster			237,985,524	-
Transit Services Programs Cluster:				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	N/A	1,934,273	1,423,051
COVID-19 - Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	N/A	23,981	5,522
Community Project Funding Congressionally Directed Spending	20.534	N/A	1,613,449	-
Total Transit Services Programs Cluster			3,571,703	1,428,573
Total Department of Transportation			298,511,511	8,332,538
Department of Justice				
Passed through North County Lifeline:				
Services for Trafficking Victims	16.320	15POVC-22-GG-03747-HT	8,430	-
Total Services for Trafficking Victims			8,430	-
Direct Programs:				
Project Safe Neighborhoods (PSN)	16.609	15PBJA21GG03006GUNP	1,452,931	1,324,916
Edward Byrne Memorial Assistance Grant Program (JAG)	16.738	15PBJA21GG04378SMTP	163,102	12,143
Total Direct Programs			1,616,033	1,337,059
Total Department of Justice			1,624,463	1,337,059
Department of Education				
Passed through South Bay Community Services:				
Innovative Approaches to Literacy, Full-service Community Schools; and Promise Neighborhoods	84.215	U215N180049	70,503	-
Total Department of Education			70,503	-
Department of Defense				
Direct Programs:				
Military Installation Sustainability	12.003	N/A	10,524	-
Total Department of Defense			10,524	-
U.S. Environmental Protection Agency				
Direct Programs:				
Climate Pollution Reduction Grants	66.046	98T73501	442,645	-
Total U.S. Environmental Protection Agency			442,645	-
Total Federal Expenditures			<u>\$ 300,659,646</u>	<u>\$ 9,669,597</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards

SAN DIEGO ASSOCIATION OF GOVERNMENTS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2024

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards

a) Scope of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of SANDAG under federal government programs for the year ended June 30, 2024. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements* for Federal Awards ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of SANDAG, it is not intended to and does not present the financial position, changes in net position or cash flows of SANDAG.

SANDAG did not use the 10% de minimis indirect cost rate as covered in section 200.414 of the Uniform Guidance.

b) Basis of Accounting

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards wherein certain types of expenditures are not allowable or are limited as to reimbursement.

SANDAG utilizes local funds when federal funds are not received in a timely manner. Upon receipt of federal funds, SANDAG reimburses local funds that were utilized for expenditures for federal programs. Reimbursements are shown as credit balances in the Schedule. Expenditures incurred before a federal grant is executed are included on the Schedule in the year the grant was executed.

c) Transportation Infrastructure Finance and Innovation Act (TIFIA) Program Loan

On June 27, 2017, the Commission entered into a Transportation Infrastructure Finance and Innovation Act (TIFIA) loan agreement with the United States Department of Transportation to finance the Commission's continued implementation of the TransNet program for up to \$537,484,439 of costs to complete the Mid-Coast Corridor Transit Project. Under terms of the agreement, the Commission will pay an interest rate of 2.72 percent. The Commission's plan was to issue short-term financing during the period of project construction and use the TIFIA loan proceeds to repay the short-term borrowing.

On January 14, 2021, the Commission renegotiated the terms of the loan with the U.S. Department of Transportation to reduce the annual interest rate from 2.72 percent to 1.75 percent.

SAN DIEGO ASSOCIATION OF GOVERNMENTS

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2024

(1) Summary of Significant Accounting Policies Applicable to the Schedule of Expenditures of Federal Awards (Continued)

On September 15, 2022, the Commission disbursed \$537,484,439 of loan proceeds to repay the 2021 Series A short-term notes. There were no additional TIFIA draws or expenditures made during the fiscal year ended June 30, 2024. As of June 30, 2024, the outstanding amount due on the TIFIA Loan including accrued interest was \$554,516,468.

SAN DIEGO ASSOCIATION OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2024

Section I – Summary of Auditor’s Results

Financial Statements

- | | |
|---|------------|
| 1. Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with GAAP: | Qualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | 2024-001 |
| b. Significant deficiency(ies) identified? | None Noted |
| 3. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|---|------------|
| 1. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiency(ies) identified? | 2024-002 |
| 2. Type of auditor’s report issued on compliance for major programs: | Unmodified |
| 3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |

4. Identification of major programs:

Assistance Listing

Name of Federal Programs or Clusters

20.326

Federal-State Partnership for
Intercity Passenger Rail

20.500

Federal Transit Cluster

20.507

- | | |
|---|-------------|
| 5. Dollar threshold used to distinguish between Type A and Type B programs: | \$3,000,000 |
| 6. Auditee qualified as a low-risk auditee? | No |

SAN DIEGO ASSOCIATION OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2024

Section II - Financial Statement Findings

(2024-001) Adjustments Detected During the Audit

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

- To correct the deferred refunding loss related to the 2023A bond issuance by \$6,489,686.
- To correct construction in progress in the South Bay Expressway fund in the amount of \$738,015.
- To add back capital assets and accumulated depreciation removed in error in the ARJIS fund in the amount of \$10,098,973.

Potential Effect

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

Recommendation

Auditing standards indicate that material adjustments identified through the audit process are evidence of a weakness in SANDAG's internal control structure. Efforts should be made to enhance SANDAG's year-end closing procedures to include areas that resulted in audit adjustments.

Management's Comments Regarding Corrective Actions Planned

SANDAG concurs with the auditor's recommendation and plans to implement additional analysis and review during the year-end process to improve the integrity of the data for financial reporting as well as promote continued training for staff on complex accounting transactions. New tools developed during this year-end close can be utilized going forward to help reduce any future audit adjustments. Management will strengthen communication with user departments to ensure accurate reporting of capital assets for financial reporting. In addition, SANDAG also implemented the Capital Asset module in the new ERP system during our year-end close process which going forward will further strengthen our internal controls for capital assets.

SAN DIEGO ASSOCIATION OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2024

Section III - Federal Award Findings and Questioned Costs

(2024-002) Reporting Requirements for Federal Awards

Program: Federal-State Partnership for Intercity Passenger Rail

Assistance Listing No.: 20.326

Federal Grantor: Department of Transportation – Federal Railroad Administration

Passed-through: N/A – Direct Assistance

Award No.: 69A36522403250FSPCA

Criteria

Per the grant requirements, the Grantee is required to submit one completed progress report quarterly (totaling four annually), in the form/format provided by the Federal Railroad Administration (FRA). For the duration of the Project Performance Period, the Grantee must report for the periods of: January 1 – March 31; April 1 – June 30; July 1 – September 30; and October 1 – December 31. The Grantee should furnish one copy of the completed progress report to the assigned FRA Grant Manager on or before the thirtieth (30th) calendar day of the month following the end of the quarter for which the report is submitted.

Condition

During our audit, we noted two instances of non-compliance regarding the timeliness of required quarterly reporting for the Federal-State Partnership for Intercity Passenger Rail Program grant. The instances of non-compliance are as follows:

- Quarter 3 Report – due April 30, 2024, submitted May 1, 2024
- Quarter 4 Report – due July 30, 2024, submitted August 13, 2024

Questioned Costs

No questioned costs were identified as a result of our procedures.

Effect

As a result of the untimely submission of required quarterly reports for the Federal-State Partnership for Intercity Passenger Rail Program grant, compliance with federal grant reporting requirements was not met.

Cause

The delays in reporting were due to weaknesses in SANDAG's internal controls for tracking and ensuring timely submission of grant-related reports. The existing system did not sufficiently flag the required reporting deadlines, leading to missed timelines.

SAN DIEGO ASSOCIATION OF GOVERNMENTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended June 30, 2024

Section III - Federal Award Findings and Questioned Costs (Continued)

Recommendation

We recommend SANDAG enhance the system of internal controls for tracking reporting requirements to ensure timely reporting as required by the grant agreements.

Management's Comments Regarding Corrective Actions Planned

We concur with the auditor's recommendation to enhance internal controls, ensuring compliance with timely reporting as required by the grant agreements. Calendar reminders will be added to staff's calendars, and multiple levels will be notified of the reporting submissions.

SAN DIEGO ASSOCIATION OF GOVERNMENTS

STATUS OF PRIOR YEAR AUDIT FINDINGS

Year ended June 30, 2024

(2023-001) Adjustments Detected During the Audit

The finding has been repeated as item 2024-001.

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

While the toll road back-office system still contains known errors, SANDAG has developed controls to monitor and detect system errors in a timely manner. SANDAG ultimately plans to replace the system. As a result, this finding has been sufficiently resolved.

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

The finding has been resolved.

Independent Accountant's Report

Management
San Diego Association of Governments
San Diego, California

We have performed the procedures enumerated below, related to the City of Coronado's ("City") compliance with the agreement between SANDAG and the City of Coronado entered on June 30, 2000 ("Agreement") and the reporting requirements for the Annual Schedule of Status of Funds by Project (Schedule A) and the Cumulative Schedule of Status of Funds by Project (Schedule B) for the fiscal year ended June 30, 2024. The City of Coronado is responsible for its compliance with those requirements.

SANDAG has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of assisting users in understanding compliance with the Agreement and the reporting requirements for Schedule A and Schedule B. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

Our procedures and findings are as follows:

1. We obtained and documented the agreement between SANDAG and the City, entered on June 30, 2000 (the "Agreement").

Results: No exceptions were noted as a result of our procedures.

2. We obtained from SANDAG the applicable approved Regional Transportation Improvement Program (RTIP). We agreed the RTIP projects to the projects reported on Schedule A.

Results: No exceptions were noted as a result of our procedures.

3. We inquired of the City's management and determined that the City maintains a separate fund for Toll Bridge revenues or an alternative approach to maintain separate accountability for reasonableness.

Results: No exceptions were noted as a result of our procedures.

4. We obtained a detailed general ledger for Toll Bridge revenues and expenditures from the City for the fiscal year ended June 30, 2024.

Results: No exceptions were noted as a result of our procedures.

5. We obtained from the City the Annual Schedule of Status of Funds by Project (Schedule A), and performed the following procedures:

- a. Agreed the beginning balance to the prior year ending balance.

Results: No exceptions were noted as a result of our procedures.

- b. Obtained a listing of Toll Bridge payments made to the City from SANDAG and compared the revenue recorded by the City to the listing of payments received.

Results: No payments were received during the year ended June 30, 2024.

- c. Identified the interest income reported for the fiscal year by tracing interest income reported on Schedule A and agreed this amount to the City's general ledger.

Results: No exceptions were noted as a result of our procedures.

- d. Identified the Toll Bridge expenditures for the fiscal year under review by performing the following procedures:

- i. Traced the total project expenditures per Schedule A and agreed to the City's general ledger.

Results: No exceptions were noted as a result of our procedures.

- ii. Selected individual expenditures that comprised at least 25% of the total dollar amount of expenditures from the general ledger and obtained supporting documentation.

Results: The City recorded total expenditures in the amount of \$18,449. We selected \$13,661 (74%) for testing. No exceptions were noted as a result of our procedures.

- iii. For the expenditures selected, we identified the Metropolitan Planning Organization Identification Number (MPO ID) that the expenditures are charged against to determine if the MPO ID is included in the 2023 RTIP and the expenditures are an eligible cost per the Agreement.

Results: No exceptions were noted as a result of our procedures.

- iv. Inquired of management whether indirect costs are allocated to the projects included in the RTIP. If so, document the indirect cost rate allocated and the basis of the allocation.

Results: This procedure is not applicable as there are no indirect costs allocated to projects included in the RTIP for the year ended June 30, 2024.

- e. We determined that any amount reported in the "adjustments" column is explained in the form of a footnote and that the adjustments are consistent with SANDAG Board Policy No. 031, Rule #17, Section III.

Results: No exceptions were noted as a result of our procedures.

- f. We obtained a list of completed projects from the City that are reported by the Toll Bridge fund project number and MPO ID. We determined whether any remaining Toll Bridge funds for completed projects were transferred to another Toll Bridge-eligible project within the same program or related program. We determined that projects identified as completed in the previous fiscal year are not presented in the Schedule A for the current fiscal year.

Results: This procedure is not applicable as there were no completed projects during the year ended June 30, 2024.

- i. If the balance of a completed project has not been transferred to another Toll Bridge-eligible project, we ensured that a footnote is presented that includes the subsequent year's intended action in accordance with SANDAG Board Policy No. 031, Rule #17, Section III.

Results: This procedure is not applicable as there were no completed projects during the year ended June 30, 2024.

- g. If a project ending balance was negative, we ensured that an explanation in the form of a footnote to Schedule A is provided that includes the subsequent year's intended action in accordance with SANDAG Board Policy No. 031, Rule #17, Section III.

Results: This procedure is not applicable as there were no projects with a negative balance during the year ended June 30, 2024.

- h. We obtained a signed staff report or resolution from the City's governing body consenting to the transfer of funds from one project to another.

Results: This procedure is not applicable as there were no transfers of funds during the year ended June 30, 2024.

- i. We determined whether the City reported non-Toll Bridge activity separate from Toll Bridge activity in Schedule A.

Results: This procedure is not applicable as the City did not report non-Toll Bridge activity separate from Toll Bridge activity during the year ended June 30, 2024.

- 6. We obtained the Cumulative Schedule of Status of Funds by Project (Schedule B) from the City and determined that it included cumulative information for all Coronado Toll bridge projects including funds received, expenditures incurred, interest income, adjustments and an ending balance listed alpha-numeric by MPO ID. We inspected Schedule B and determined that projects are properly classified and reported by project. We inspected the ending balances at June 30 and ensured that the balances agreed for those projects reported in both Schedules A and B.

Results: No exceptions were noted as a result of our procedures.

- 7. We inspected and documented the status of any prior year findings and recommendations.

Results: This procedure is not applicable as there were no findings in the prior year.

8. We prepared findings and recommendations as a result of performing these agreed-upon procedures. We have included the City's response to the findings, if applicable.

Results: This procedure is not applicable as there were no findings for the year ended June 30, 2024.

We were engaged by SANDAG to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on compliance with specified requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the City of Coronado and SANDAG and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of SANDAG and is not intended to be, and should not be, used by anyone other than the specified party.

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

Irvine, California
March 31, 2025

CITY OF CORONADO, CALIFORNIA

Coronado Toll Bridge Fund

Schedule of Status of Funds by Project

Year Ended June 30, 2024

MPO ID	CIP Number	Project Name	Project Status July 1, 2023	Funds Received	Interest Income	Project Expenditures	City Appropriations	Funds Returned	Adjustments	Project Status June 30, 2024	Notes
Coronado Toll Bridge Fund											
<i>Toll Funds Available</i>			\$ 551,888	\$ -	\$ 238,405	\$ -	\$ -	\$ -	\$ (1)	790,292	A
Programmed Projects											
COR 19	10011	Coronado Gateway (SR 75/282 Toll Removal Mitigation Toll Plaza)	4,875,793	-	-	(18,449)	-	-	-	4,857,344	A
COR 23	17024	Street Lighting 3rd & 4th	428,117	-	-	-	-	-	-	428,117	A
		Total Programmed Projects	5,303,910	-	-	(18,449)	-	-	-	5,285,461	
		Reconciling Item for GASB 31	(63,732)	-	85,193	-	-	-	-	21,461	
		Total	\$ 5,792,066	\$ -	\$ 323,598	\$ (18,449)	\$ -	\$ -	\$ (1)	6,097,214	

Notes:

A These funds were appropriated to the various projects from the Toll funds available.

CITY OF CORONADO, CALIFORNIA
Coronado Toll Bridge Fund
Cumulative Schedule of Status of Funds by Project
Year Ended June 30, 2024

MPO ID	CIP Number	Project Name	Funds Received	Interest Income	Project Expenditures	City Appropriations	Funds Returned	Adjustments	Project Status June 30, 2024
Coronado Toll Bridge Fund									
<i>Toll Funds</i>			\$ 10,632,003	\$ 3,031,947	\$ -	\$ (19,240,051)	\$ 6,369,373	\$ (2,980)	\$ 790,292
Open Projects:									
Programmed Projects									
COR 19	10011	Coronado Gateway (SR 75/282 Toll Removal Mitigation Toll Plaza)	-	-	(454,474)	5,310,688	1,130	-	4,857,344
COR 23	17024	Street Lighting at 3rd & 4th	-	-	(121,883)	550,000	-	-	428,117
Total programmed projects			-	-	(576,357)	5,860,688	1,130	-	5,285,461
Completed Projects:									
Programmed Projects									
		Bus Shelters	-	-	(600)	600	-	-	-
		Inroad Crosswalk Lighting	-	-	(4,966)	4,966	-	-	-
		Semi-Diverter Program	-	-	(57,717)	57,717	-	-	-
	03003	City-Wide Major Traffic Study	-	-	(157,235)	157,235	-	-	-
	04502	6th & Orange Drainage Improvements	147,000	-	(363,584)	369,000	(152,416)	-	-
	09902	Orange Ave. - Extension of Left Turn Lane	-	-	(77,182)	145,000	(67,818)	-	-
COR 05	00901	SR 75 Tunnel	64,661	-	(1,783,239)	7,212,000	(5,493,422)	-	-
COR 13	08011	Pomona, Seventh and Adella Roundabout	-	-	(1,008,585)	1,200,000	(191,415)	-	-
COR 14	12010	Third Street, Fourth Street, and I Avenue							-
		Drainage Improvements	-	-	(2,874,939)	2,871,960	-	2,979	-
COR 15	12002	Traffic Modeling Study	-	-	(48,305)	50,000	(1,695)	-	-
COR16	14026	Traffic Calming Study	-	-	(50,000)	50,000	-	-	-
COR 06	10009	SR 75/282 Toll Removal Mitigation (Bulbouts)	-	-	(587,393)	1,050,000	(462,607)	-	-
COR 06	10010	SR 75/282 Toll Removal Mitigation (Traffic Signals)	125,000	-	(335,885)	210,885	-	-	-
Total Completed Projects			336,661	-	(7,349,630)	13,379,363	(6,369,373)	2,979	-
Sub-Total Funds Received & Project Expenditures			10,968,664	3,031,947	(7,925,987)	-	1,130	(1)	6,075,753
Reconciling Item for GASB 31			-	21,461	-	-	-	-	21,461
Total Cumulative Toll Bridge Fund Programmed Projects			\$ 10,968,664	\$ 3,053,408	\$ (7,925,987)	\$ -	\$ 1,130	\$ (1)	\$ 6,097,214

A - Project completed. Adjusted overspent balance to Toll Funds available.

Independent Accountant's Report

Board of Directors
San Diego Association of Governments
San Diego, California

We have performed the procedures enumerated below on the Federal Funding Allocation Statistics Form (Form FFA-10) for the San Diego Association of Governments (SANDAG) for the fiscal year ended June 30, 2024, solely to assist the management of SANDAG in the evaluation of whether SANDAG complied with the standards described below, and that the information included in the Form FFA-10 of SANDAG's National Transit Database (NTD) Report is presented in conformity with the requirements of the Uniform System of Accounts and Records and Reporting System, Final Rule, as specified in 49 CFR Part 630, Federal Register, January 15, 1993, and as presented in the 2023 Policy Manual (Policy Manual). SANDAG's management is responsible for the data presented in Form FFA-10.

SANDAG's management has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of evaluating whether SANDAG complied with the standards described below, and that the information included in the Form FFA-10 of SANDAG's National Transit Database (NTD) Report is presented in conformity with the requirements of the Uniform System of Accounts and Records and Reporting System, Final Rule, as specified in 49 CFR Part 630, Federal Register, January 15, 1993, and as presented in the 2023 Policy Manual (Policy Manual). This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures performed, and the results of those procedures were as follows:

1. Obtained and read a copy of written procedures related to the system for reporting and maintaining data in accordance with NTD requirements and definitions set forth in 49 CFR Part 630, Federal Register, January 15, 1993, and as presented in the Policy Manual. If procedures are not written, discussed the procedures with the personnel assigned responsibility for supervising the NTD data preparation and maintenance.

Results: No exceptions were noted as a result of the procedures performed.

2. Discussed the procedures (written or informal) with personnel assigned responsibility for supervising the preparation and maintenance of NTD data to determine:
 - The extent to which SANDAG followed the procedures on a continuous basis; and
 - Whether they believe such procedures result in accumulation and reporting of data consistent with the NTD definitions and requirements set forth in 49 CFR Part 630, Federal Register, January 15, 1993, and as presented in the Policy Manual.

Results: No exceptions were noted as a result of the procedures performed.

3. Inquired with personnel concerning the retention policy that is followed by SANDAG with respect to source documents supporting the NTD data, Total Modal Operating Expenses data (F-30, line 15, column e), Actual Vehicle Revenue Mile and Passenger Miles Traveled (S-10, lines 12 and 20, column d).

Results: No exceptions were noted as a result of the procedures performed.

4. Based on the description of SANDAG's procedures obtained in items "a" and "b" above, identified all the source documents that must be retained by SANDAG for a minimum of three years. For each type of source document, select three months of the fiscal year and determine whether the documents exist for each of these periods.

Results: No exceptions were noted as a result of the procedures performed.

5. Discussed the system of internal controls with the person responsible for supervising and maintaining the NTD data. Inquired whether individuals, independent of the individuals preparing source documents and posting data summaries, review the source documents and data summaries for completeness, accuracy and reasonableness and how often such reviews are performed.

Results: No exceptions were noted as a result of the procedures performed.

6. Selected a random sample of the source documents and determine whether supervisors' signatures are present as required by the system of internal controls. If supervisors' signatures are not required, inquired how the supervisors' reviews are documented.

Results: No exceptions were noted as a result of the procedures performed.

7. Obtained the worksheets utilized by SANDAG to prepare the final data that is transcribed onto the Federal Funding Allocation Statistics form. Compared the periodic data included on the worksheets to the periodic summaries prepared by SANDAG. Tested the mathematical accuracy of the summarizations.

Results: No exceptions were noted as a result of the procedures performed.

8. Discussed with SANDAG staff the procedure for accumulating and recording passenger miles traveled (PMT) data in accordance with NTD requirements. Inquired whether the procedure used is: (1) a 100% count of actual PMT; or (2) an estimate of PMT based on statistical sampling meeting FTA's 95% confidence and + 10% precision requirements. If SANDAG conducts a statistical sample for estimating PMT, inquired whether the sampling procedure is: (1) one of the two procedures suggested by the FTA and described in FTA Circulars 2710.1A or 2710.2A; or (2) an alternative sampling procedure. If SANDAG uses an alternative sampling procedure inquired whether the procedure has been approved by the FTA or whether a qualified statistician has determined that the procedure meets the FTA's statistical requirements.

Results: No exceptions were noted as a result of the procedures performed.

9. Discussed with SANDAG staff SANDAG's ability to conduct statistical sampling for PMT data every third year. Determined whether SANDAG meets one of the three criteria that allow transit agencies to conduct statistical samples for accumulating PMT data every third year rather than annually. The criteria are as follows:

- According to the 2020 Census, the public transit agency serves an urbanized area (UZA) of less than 500,000 population;
- The public transit agency directly operates fewer than 100 revenue Vehicles Operated in Annual Maximum Service (VOMS) (in any size UZA).
- The service is purchased from a seller operating fewer than 100 revenue vehicles in VOMS and is included in the transit agency's NTD report.

Results: SANDAG did not meet the criteria established by the FTA to conduct statistical sampling for passenger mile data every third year. Therefore, this procedure was not applicable.

10. For agencies that meet one of the above criteria, reviewed the NTD documentation for the most recent mandatory sampling year and determine that statistical sampling was conducted and meets the 95% confidence and $\pm 10\%$ precision requirements. Determined how SANDAG estimated annual PMT for the current report year.

Results: SANDAG did not meet the criteria established by the FTA to conduct statistical sampling for passenger mile data every third year. Therefore, this procedure was not applicable.

11. Obtained a description of the sampling procedure for estimation of PMT data used by SANDAG. Obtained a copy of SANDAG's working papers or methodology used to select the actual sample of runs for recording PMT data. If the average trip length was used, determined that the universe of runs was used as the sampling frame. Determined that the methodology to select specific runs from the universe resulted in a random selection of runs. If a selected sample run was missed, determined that a replacement sample run was randomly selected. Determined that SANDAG followed the stated sampling procedure.

Results: No exceptions were noted as a result of the procedures performed.

12. Selected a random sample of source documents for accumulating PMT data and determine that they are complete (all required data is recorded) and that the computations are accurate. Selected a random sample of the accumulation periods and recompute the accumulations for each of the selected periods. Listed the accumulation periods that were tested. Tested the mathematical accuracy of the summarization.

Results: No exceptions were noted as a result of the procedures performed.

13. Discussed with SANDAG staff the procedures for systematic exclusion of charter, school bus and other ineligible vehicle miles from the calculation of actual VRM and determine that stated procedures are followed. Selected a random sample of the source documents used to record charter and school bus mileage and test the mathematical accuracy of the computations.

Results: SANDAG does not provide charter or school bus services. Therefore, this procedure was not applicable.

14. For actual VRM data, documented the collection and recording methodology and determine that deadhead miles are systematically excluded from the computation.

- If actual VRM is calculated from schedules, documented the procedures used to subtract missed trips. Selected a random sample of the days that service is operated and recompute the daily total of missed trips and missed VRM. Tested the mathematical accuracy of the summarization.
- If actual VRM is calculated from hubodometers, documented the procedures used to calculate and subtract deadhead mileage. Selected a random sample of the hubodometer readings and determine that the stated procedures for hubodometer deadhead mileage adjustments are applied as prescribed. Tested the mathematical accuracy of the summarization of intermediate accumulations.
- If actual VRM is calculated from vehicle logs, selected random samples of the vehicle logs and determine that the deadhead mileage has been correctly computed in accordance with FTA's definitions.

Results: Per inquiry, with Michelle Porter, Administrative Analyst, there were no deadhead miles as of June 30, 2024. Therefore, this procedure was not applicable.

15. For rail modes, reviewed the recording and accumulation sheets for actual VRM and determined that locomotive miles are not included in the computation.

Results: SANDAG does not provide rail service. Therefore, this procedure was not applicable.

16. If fixed guideway (FG) or High Intensity Bus directional route miles (FG or HIB DRM) are reported, interviewed the person responsible for maintaining and reporting the NTD data and determined whether the operations meet FTA's definition of FG or HIB in that the service is:

- Rail, trolleybus (TB), ferryboat (FB) or aerial tramway (TR); or
- Bus (MB, CB or RB) service operating over exclusive or controlled access rights-of-way (ROW) and:
 1. access is restricted;
 2. legitimate need for restricted access is demonstrated by peak period level of Service D or worse on parallel adjacent highway;
 3. restricted access is enforced for freeways;
 4. priority lanes used by other high occupancy vehicles (HOV) (i.e., vanpools (VP), carpools) must demonstrate safe operation; and
 5. High Occupancy/Toll (HO/T) lanes meet FHWA requirements for traffic flow and use of toll revenues, and that the transit agency has provided to NTD a copy of the State's certification to the U.S. Secretary of Transportation that it has established a program for monitoring, assessing and reporting on the operation of the HOV facility with HO/T lanes.

Results: SANDAG did not report FG/HIB DRM on its NTD report for the fiscal year ended June 30, 2024. Therefore, this procedure was not applicable.

17. Discussed the measurement of FG and HIB DRM with the person reporting the NTD data and determined that the mileage is computed in accordance with FTA's definitions of FG/HIB and DRM. Inquired whether there were service changes during the fiscal year that resulted in an increase or decrease in DRMs. If a service change resulted in a change in overall DRM, recomputed the average monthly DRMs, and reconciled the total to the FG/HIB DRM reported on Form FFA-10.

Results: SANDAG did not report FG/HIB DRM on its NTD report for the fiscal year ended June 30, 2024. Therefore, this procedure was not applicable.

18. Inquired if any temporary interruptions in transit service occurred during the report year. If these interruptions were due to maintenance or rehabilitation improvements to a FG segment(s), the following apply:

- Report DRMs for the segment(s) for the entire report year if the interruption is less than 12 months in duration. Report the months of operation on the FG/HIB segments form as 12.
- If the improvements cause a service interruption on the FG/HIB DRMs lasting more than 12 months, SANDAG should contact its NTD validation analyst to discuss. The FTA will make a determination on how to report the DRMs.

Results: SANDAG did not report FG/HIB DRM on its NTD report for the fiscal year ended June 30, 2024. Therefore, this procedure was not applicable.

19. Measured FG/HIB DRM from maps or by retracing route.

Results: SANDAG did not report FG/HIB DRM on its NTD report for the fiscal year ended June 30, 2024. Therefore, this procedure was not applicable.

20. Discussed with the person reporting the NTD data whether other public transit agencies operate service over the same FG as SANDAG. If yes, determined that SANDAG coordinated with the other transit agency (or agencies) such that the DRM for the segment of the FG/HIB are reported only once to the NTD on Form FFA-10. Each transit agency should report the actual VRM, PM and operating expense for the service operated over the same FG.

Results: SANDAG did not report FG/HIB DRM on its NTD report for the fiscal year ended June 30, 2024. Therefore, this procedure was not applicable.

21. Reviewed the FG/HIB Segments Form (S-20). Discussed with the persons reporting NTD data the Agency Revenue Service Start Date for any segments added in the 2017 report year. This is the commencement date of revenue service for each FG/HIB segment. Determined that the date is reported as when the agency began revenue service. This may be later than the Original Date of Revenue Service if SANDAG is not the original operator. If a segment was added for the 2017 report year, the Agency Revenue Service Date must occur within SANDAG's 2017 fiscal year. Segments are grouped by like characteristics. This pertains to segments reported for the first time in the current report year. Even if a transit agency can document a revenue service start date prior to the current NTD report year, FTA will only consider segments continuously reported to NTD.

Results: SANDAG did not report FG/HIB DRM on its NTD report for the fiscal year ended June 30, 2024. Therefore, this procedure was not applicable.

22. Compared operating expenses with audited financial data, after reconciling items are removed.

Results: No exceptions were noted as a result of the procedures performed.

23. If SANDAG purchases transportation services, interviewed personnel reporting the NTD data regarding the amount of purchased transportation (PT) generated fare revenue. The PT fare revenues should equal the amount reported on the Contractual Relationship Form (B-30).

Results: No exceptions were noted as a result of the procedures performed.

24. If SANDAG's report contains data for PT services and assurances of the data for those services are not included, obtained a copy of the Independent Auditor Statement for Federal Funding Allocation data of the PT service.

Results: PT services are included as part of SANDAG's NTD report. Therefore, this procedure was not applicable.

25. If SANDAG's purchases transportation services, obtained a copy of the PT contract and determine that the contract: (1) specifies the specific public transportation services to be provided; (2) specifies the monetary consideration obligated by SANDAG; (3) specifies the period covered by the contract and that this period is the same as, or a portion of, the period covered by SANDAG's NTD report; and (4) is signed by representatives of both parties to the contract. Interviewed the person responsible for maintaining the NTD data regarding the retention of the executed contract and determine that copies of the contracts are retained for three years.

Results: No exceptions were noted as a result of the procedures performed.

26. If SANDAG provides services in more than one UZA, or between an UZA and a non-UZA, inquired of the person responsible for maintaining the NTD data regarding the procedures for allocation of statistics between UZAs and non-UZAs. Obtained and reviewed the FG segment worksheets, route maps, and UZA boundaries used for allocating the statistics, and determine that the stated procedure is followed and that the computations are correct.

Results: No exceptions were noted as a result of the procedures performed.

27. Compared the data reported on Total Modal Operating Expenses data (F-30, line 15, column e), Actual Vehicle Revenue Mile and Passenger Miles Traveled (S-10, lines 12 and 20, column d) to comparable data for the prior report year and calculated the percentage change from the prior year to the current year. For actual VRM, PMT or operating expense data that have increased or decreased by more than 10%, or FG DRM data that have increased or decreased, interviewed SANDAG management regarding the specifics of operations that led to the increases or decreases in the data relative to the prior reporting period.

Results: No exceptions were noted as a result of the procedures performed.

We were engaged by SANDAG to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the AICPA. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the procedures noted above. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of SANDAG and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.



Irvine, California
February 28, 2025



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

October 21, 2024

Audit Committee
San Diego Association of Governments
San Diego, California

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

Our Responsibilities

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

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

Planned Scope of the Audit

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

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

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

Timing of Audit

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

Audit Risk Areas

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

- Risk of errors implementing new ERP system: We will review SANDAG's documentation of converting system data to the new system. We will utilize a Certified Information Systems Auditor to evaluate the system controls of the new ERP system, identify key internal controls, and evaluate the effectiveness of the controls.
- Risk of errors in toll revenues: As a result of documented issues with the toll road back off system in the prior year, we have identified toll revenues as a high risk audit area. Our audit approach will include evaluating whether or not the system can be relied upon to ensure there are no material misstatements in the financial statements.
- Risk of errors recording new debt: SANDAG issued 2023 Series A Sales Tax Revenue Bonds for purposes of refunding existing debt and terminating certain interest rate swaps. Due to the complexity of the transaction, we plan to review the journal entry for accuracy and ensure the related footnote disclosures are complete and accurate.

- Risk of federal grant noncompliance: We will evaluate SANDAG's federal grants to determine which grants are required to be audited under the Federal Uniform Guidance. We will test those grants for compliance with the Uniform Guidance and the applicable grant agreements.
- The auditing standards require the auditors to perform an unpredictability test each year. This year's test will focus on additional evaluation of governmental receivables including confirming significant receivables with 3rd parties.

Fraud Inquiries

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

Examples of these matters are:

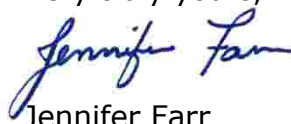
- Known or suspected instances of employee fraud
- Areas in which the internal controls of SANDAG are thought by the Committee to be weak
- Known or suspected misstatements in the accounting records of SANDAG
- Known or suspected use of improper accounting practices by SANDAG
- Any awareness of pressure upon SANDAG or Authority management with respect to achieving certain financial results
- Matters that warrant particular attention during the audit
- Information about unusual transactions or other matters relevant to the audit

Generally, the scope of the audit is limited to *matters involving amounts that would be significant to the financial statements of SANDAG taken as a whole*. If additional time is required to respond to the concerns of the Committee, we will estimate for SANDAG the costs involved.

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

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

Very truly yours,



Jennifer Farr
Davis Farr LLP

SANDAG Financial Audit Program

Transportation Development Act (TDA) and

State Transit Assistance Fund (STAF)

Financial Statements

Year Ended June 30, 2024

<u>City of Coronado, California</u>	/TDA Article 4 and Article 8 Funds
<u>City of El Cajon, California</u>	/TDA Article 3 and Article 4 Funds
<u>City of Escondido, California</u>	TDA Article 3 Fund
<u>City of La Mesa, California</u>	TDA Article 3 and Article 4 Funds
<u>City of Lemon Grove, California</u>	TDA Article 4 Fund
<u>City of National City, California</u>	TDA Article 3 Fund
<u>City of Poway, California</u>	TDA Article 4 Fund
<u>City of San Diego, California</u>	TDA Article 3 Fund
<u>City of Santee, California</u>	TDA Article 3 and Article 4 Funds
<u>SANDAG FACT</u>	TDA Article 4.5 Fund
<u>SANDAG TDA AUP</u>	
<u>County LTF</u>	
<u>County STAF</u>	
<u>MTS STAF</u>	

CITY OF CORONADO, CALIFORNIA

**Transportation Development Act
Article 4 and Article 8 Funds**

Financial Statements

For the Fiscal Year Ended June 30, 2024

CITY OF CORONADO, CALIFORNIA

**Transportation Development Act
Article 4 and Article 8 Funds**

Financial Statements

For the Fiscal Year Ended June 30, 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Transportation Development Act ("TDA") Article 4 and Article 8 Funds ("TDA Funds") of the City of Coronado, California ("City") as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the TDA Funds as of June 30, 2024, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the TDA Funds of the City and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2024, the changes in its financial position, for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the TDA Funds for the year ended June 30, 2023, and we expressed an unmodified opinion on those financial statements in our report dated March 25, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplemental Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinions are not modified with respect to this matter.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the TDA Funds of the City. The *Schedule of Revenues, Expenditures and Change in Fund Balance – Budget and Actual* and *Schedule of Status of Funds by Project*, listed as Supplemental Information in the Table of Contents, is presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2024 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Irvine, California
December 19, 2024

CITY OF CORONADO, CALIFORNIA

**Transportation Development Act
Article 4 and Article 8 Funds**

Balance Sheets

**June 30, 2024
(with Comparative Information for the Prior Year)**

	TDA Article 4		TDA Article 8	
	2024	2023	2024	2023
Assets:				
Cash and investments (Note 3)	\$ 112,175	\$ 104,034	\$ 615,909	\$ 607,832
Due from other governments (Note 4)	<u>30,423</u>	<u>30,423</u>	<u>9,313</u>	<u>-</u>
Total assets	<u>\$ 142,598</u>	<u>\$ 134,457</u>	<u>\$ 625,222</u>	<u>\$ 607,832</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance:				
Liabilities:				
Accounts Payable	\$ -	\$ -	\$ 26,350	\$ 50,337
Unearned revenue (Note 5)	<u>102,062</u>	<u>128,715</u>	<u>552,317</u>	<u>534,942</u>
Total liabilities	<u>102,062</u>	<u>128,715</u>	<u>578,667</u>	<u>585,279</u>
Deferred inflows of resources:				
Unavailable revenue (Note 6)	<u>30,423</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>30,423</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance:				
Restricted	<u>10,113</u>	<u>5,742</u>	<u>46,555</u>	<u>22,553</u>
Total fund balance	<u>10,113</u>	<u>5,742</u>	<u>46,555</u>	<u>22,553</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 142,598</u>	<u>\$ 134,457</u>	<u>\$ 625,222</u>	<u>\$ 607,832</u>

See notes to financial statements

CITY OF CORONADO, CALIFORNIA

**Transportation Development Act
Article 4 and Article 8 Funds**

Schedule of Revenues, Expenditures and Changes in Fund Balances

**For the Fiscal Year Ended June 30, 2024
(with Comparative Information for the Prior Year)**

	TDA Article 4		TDA Article 8	
	2024	2023	2024	2023
Revenues:				
TDA funds	\$ 30,459	\$ 30,423	\$ 312,656	\$ 293,852
Interest income	<u>4,371</u>	<u>5,742</u>	<u>24,002</u>	<u>22,553</u>
Total revenues	<u>34,830</u>	<u>36,165</u>	<u>336,658</u>	<u>316,405</u>
Expenditures:				
Construction and development	<u>30,459</u>	<u>30,423</u>	<u>312,656</u>	<u>293,852</u>
Total expenditures	<u>30,459</u>	<u>30,423</u>	<u>312,656</u>	<u>293,852</u>
Change in fund balance	4,371	5,742	24,002	22,553
Fund balance at beginning of year	<u>5,742</u>	<u>-</u>	<u>22,553</u>	<u>-</u>
Fund balance at end of year	<u>\$ 10,113</u>	<u>\$ 5,742</u>	<u>\$ 46,555</u>	<u>\$ 22,553</u>

See notes to financial statements

CITY OF CORONADO, CALIFORNIA

Transportation Development Act Article 4 and Article 8 Funds

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(1) General Information

The financial statements of the Transportation Development Act Article 4 and Article 8 Funds Activity are intended to present the financial position and changes in financial position of only those transactions attributable to the TDA Funds administered and disbursed by the City of Coronado, California and do not purport to, and do not, present fairly the financial position of the City, the changes in its financial position in accordance with accounting principles generally accepted in the United States of America.

Pursuant to §99260 of the California Public Utilities Code, Article 4 monies may be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects. Funding for this program was authorized by the San Diego Association of Governments (SANDAG).

Pursuant to Section 99400.7 of the California Public Utilities Code, Article 8 monies may be used to provide commuter ferry service on San Diego Bay for the purpose of serving peak period commute trips for pedestrians and bicycles. The commuter ferry service may be located anywhere on San Diego Bay, but shall be consistent with the regional transportation plan, shall serve employment centers and high-volume activity centers, and may be provided by contract with operators, private entities operating under a franchise or license, or nonprofit corporations organized pursuant to Division 2 (commencing with Section 5000) of Title 1 of the Corporations Code. Funding for this program was authorized by SANDAG.

(2) Summary of Significant Accounting Policies

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, obligations, reserves and equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The TDA Funds are accounted for as Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are usually required by law or administrative regulation to be accounted for in separate funds.

Measurement Focus and Basis of Accounting

Special Revenue Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

CITY OF CORONADO, CALIFORNIA

Transportation Development Act Article 4 and Article 8 Funds

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Recognition of revenues arising from nonexchange transactions, which include revenues from taxes, certain grants and contributions, is based on the primary characteristic from which the revenues are received by the City. For the City, funds received under TDA Article 4 and 8 possess the characteristic of a voluntary nonexchange transaction similar to a grant. Revenues under TDA Article 4 and 8 are recognized in the period when all eligibility requirements have been met.

Deferred Outflows and Inflows of Resources

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of fund balance that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure) until that time. The TDA Fund currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund balance that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The TDA Fund has only one type of this item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category and is reported as unavailable revenue. The unavailable revenue arises when potential revenues do not meet both the measurable and availability criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the deferred inflow of resources is removed from the balance sheet and revenue is recognized.

Fund Equity

The components of the fund balances of governmental funds reflect the classifications described below.

- *Nonspendable Fund Balance* – this includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- *Restricted Fund Balance* – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed Fund Balance* – includes amounts that can be used only for the specific purposes determined by a formal action of the City Council.

CITY OF CORONADO, CALIFORNIA

**Transportation Development Act
Article 4 and Article 8 Funds**

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

- *Assigned Fund Balance* – includes amounts that are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted or committed.
- *Unassigned Fund Balance* – includes the remaining spendable amounts which are not included in one of the other classifications, plus any deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the City Council.

Use of Estimates

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as needed. City Council Policy establishes the order of use of unrestricted fund balance. Committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. The information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's prior year TDA Fund financial statements from which this selected data was derived.

(3) Cash and Investments

The City has pooled its cash and investments in order to achieve a higher return on investments while facilitating management of cash. The balance in the pool account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms. The TDA Article 4 and Article 8 Fund's cash and investments as of June 30, 2024 and 2023 were \$728,084 and \$711,866, respectively.

The TDA Fund's cash is deposited in the City's internal investment pool, which is reported at fair value. Interest income is allocated on the basis of average cash balances. Investment policies and associated risk factors applicable to the TDA Program are those of the City and are included in the City's basic financial statements.

CITY OF CORONADO, CALIFORNIA

**Transportation Development Act
Article 4 and Article 8 Funds**

Notes to Financial Statements

(Continued)

(3) Cash and Investments (Continued)

See the City's basic financial statements for disclosures related to cash and investments including those disclosures relating to interest rate risk, credit rate risk, custodial credit risk and concentration risk.

(4) Due from Other Governments

Due from other governments in the amount of \$30,423 and \$30,423 as of June 30, 2024 and 2023, respectively, represents a receivable from SANDAG for reimbursement of eligible TDA Article 4 expenditures. Additionally, due from other governments in the amount of \$9,313 and \$0 as of June 30, 2024 and 2023, respectively, represents a receivable from SANDAG for reimbursement of eligible TDA Article 8 expenditures.

(5) Unearned Revenue

TDA Article 4 and Article 8 monies allocated to the City by MTS for specific capital improvements of trolley and bus facilities and community ferry services are considered earned when they are properly spent for the specific projects authorized. Allocations received but not used are reported as unearned revenue. The balance of unearned revenue as of June 30, 2024 and 2023 was \$654,379 and \$663,657, respectively.

(6) Unavailable Revenue

Unavailable revenue in the amount of \$30,423 and \$0 as of June 30, 2024 and 2023, respectively, for TDA Article 4 represents a receivable from SANDAG for eligible TDA expenditures which were not received within the City's availability period.

(7) Budgetary Data

The City adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America and utilizes an encumbrance system as a management control technique to assist in controlling expenditures and enforcing revenue provisions. Under this system, the current year expenditures are charged against appropriations. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any significant reconciling items.

CITY OF CORONADO, CALIFORNIA

**Transportation Development Act
Article 4 and Article 8 Funds**

Notes to Financial Statements

(Continued)

(8) Restrictions

Funds received pursuant to the California Public Utilities Code §99260 (TDA Article 4) may only be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects.

Funds received pursuant to California Public Utilities Code Section §99400 (TDA Article 8) may only be used for:

- (a) Local streets and roads, and projects, which are provided for use by pedestrians and bicycles;
- (b) Passenger rail service operations and capital improvements;
- (c) Payment to any entity, which is under contract with a county, city, or transit district for public transportation or for transportation services for any group, as determined by the transportation planning agency, requiring special transportation assistance; or
- (d) Administrative and planning costs with respect to transportation services.

(9) Contingencies

Disclosures related to contingencies, including those related to various legal actions, administrative proceedings, or claims in the ordinary course of operations, can be found in the audited financial statements of the City.

Supplementary Information

CITY OF CORONADO, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

**Schedule of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

Year Ended June 30, 2024

	<u>Budget</u>		<u>Actual</u>	<u>Variance From Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
TDA funds	\$ 30,423	\$ 30,423	30,459	\$ 36
Interest income	<u>4,371</u>	<u>4,371</u>	<u>4,371</u>	<u>-</u>
Total revenues	<u>34,794</u>	<u>34,794</u>	<u>34,830</u>	<u>36</u>
Expenditures:				
Construction and development	<u>30,423</u>	<u>30,423</u>	<u>30,459</u>	<u>(36)</u>
Total expenditures	<u>30,423</u>	<u>30,423</u>	<u>30,459</u>	<u>(36)</u>
Change in fund balance	<u>\$ 4,371</u>	<u>\$ 4,371</u>	\$ 4,371	<u>\$ -</u>
Fund balance at beginning of year			<u>5,742</u>	
Fund balance at end of year			<u>\$ 10,113</u>	

CITY OF CORONADO, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

**Schedule of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

Year Ended June 30, 2023

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
TDA funds	\$ 200,000	\$ 200,000	30,423	\$ (169,577)
Interest income	<u>1,870</u>	<u>1,870</u>	<u>5,742</u>	<u>3,872</u>
Total revenues	<u>201,870</u>	<u>201,870</u>	<u>36,165</u>	<u>(165,705)</u>
Expenditures:				
Construction and development	<u>233,547</u>	<u>233,547</u>	<u>30,423</u>	<u>203,124</u>
Total expenditures	<u>233,547</u>	<u>233,547</u>	<u>30,423</u>	<u>203,124</u>
Change in fund balance	<u>\$ (31,677)</u>	<u>\$ (31,677)</u>	\$ 5,742	<u>\$ 37,419</u>
Fund balance at beginning of year			<u>-</u>	
Fund balance at end of year			<u>\$ 5,742</u>	

CITY OF CORONADO, CALIFORNIA

**Transportation Development Act
Article 8 Fund**

**Schedule of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

Year Ended June 30, 2024

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
TDA funds	\$ 200,000	\$ 200,000	312,656	\$ 112,656
Interest income	<u>10,880</u>	<u>10,880</u>	<u>24,002</u>	<u>13,122</u>
Total revenues	<u>210,880</u>	<u>210,880</u>	<u>336,658</u>	<u>125,778</u>
Expenditures:				
Construction and development	<u>305,000</u>	<u>305,000</u>	<u>312,656</u>	<u>(7,656)</u>
Total expenditures	<u>305,000</u>	<u>305,000</u>	<u>312,656</u>	<u>(7,656)</u>
Change in fund balance	<u>\$ (94,120)</u>	<u>\$ (94,120)</u>	\$ 24,002	<u>\$ 118,122</u>
Fund balance at beginning of year			<u>22,553</u>	
Fund balance at end of year			<u>\$ 46,555</u>	

CITY OF CORONADO, CALIFORNIA

**Transportation Development Act
Article 8 Fund**

**Schedule of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

Year Ended June 30, 2023

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
TDA funds	\$ 200,000	\$ 200,000	293,852	\$ 93,852
Interest income	<u>1,870</u>	<u>1,870</u>	<u>22,553</u>	<u>20,683</u>
Total revenues	<u>201,870</u>	<u>201,870</u>	<u>316,405</u>	<u>114,535</u>
Expenditures:				
Construction and development	<u>233,547</u>	<u>233,547</u>	<u>293,852</u>	<u>(60,305)</u>
Total expenditures	<u>233,547</u>	<u>233,547</u>	<u>293,852</u>	<u>(60,305)</u>
Change in fund balance	<u>\$ (31,677)</u>	<u>\$ (31,677)</u>	\$ 22,553	<u>\$ 54,230</u>
Fund balance at beginning of year			<u>-</u>	
Fund balance at end of year			<u>\$ 22,553</u>	

CITY OF CORONADO, CALIFORNIA

**Transportation Development Act
Article 4 and Article 8 Funds**

Schedule of Status of Funds by Project

For the Fiscal Year Ended June 30, 2024

Claim Number	Project Description	Project Status at 6/30/23	Allocations Received	Interest Earned	Qualifying Project Expenditures	Project Status at 6/30/24
Article 4:						
	Capital Improvements on Trolley and Bus Facilities	\$ 104,034	\$ 30,459	\$ 4,371	\$ (30,459)	\$ 108,405
Article 8:						
16031003	Community Ferry Service	<u>571,211</u>	<u>312,656</u>	<u>24,002</u>	<u>(312,656)</u>	<u>595,213</u>
	Totals	<u>\$ 675,245</u>	<u>\$ 343,115</u>	<u>\$ 28,373</u>	<u>\$ (343,115)</u>	<u>\$ 703,618</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Transportation Development Act (TDA) Article 4 and Article 8 Funds (TDA Funds) of the City of Coronado, California (City), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements, and have issued our report thereon dated December 19, 2024.

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the following deficiency to be a material weakness.

(1) Material Misstatements Detected in Financial Statements

As a result of our audit procedures, we detected a material misstatement in the financial statements. We recorded an adjusting journal entry to record unavailable revenue and reduce current year revenues. We recommend the City carefully review revenues to ensure they are accurately recorded and recognized. We also recommend the City maintain a complete self-balancing set of records for the TDA activities for purposes of ensuring the assets and liabilities are correctly recorded.

Management's Respond to Finding

Management agrees with the findings. The City invoiced and accrued revenue outside of the 60 days availability period as accounts receivable instead of recording it as a deferred inflow/unavailable revenue. We are evaluating internal controls to ensure that revenue is attentively reviewed to record and recognize correctly.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the TDA Fund of the City are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including §6666 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including §6666 of Part 21 of the California Code of Regulations.

City's Response to Findings

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

Purpose of this Report

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



Irvine, California
December 19, 2024

CITY OF EL CAJON, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Financial Statements

For the Fiscal Year Ended June 30, 2024

CITY OF EL CAJON, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Financial Statements

For the Fiscal Year Ended June 30, 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Transportation Development Act ("TDA") Article 3 and Article 4 Funds ("TDA Funds") of the City of El Cajon, California ("City") as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the TDA Funds as of June 30, 2024, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the TDA Funds of the City and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2024, and the respective changes in its financial position, for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinions are not modified with respect to this matter.

Board of Directors
San Diego Association of Governments
San Diego, California

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the TDA Funds of the City. The *Schedule of Revenues, Expenditures and Change in Fund Balance – Budget and Actual* and *Schedule of Status of Funds by Project*, listed as Supplementary Information in the Table of Contents, is presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2024 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Irvine, California
December 13, 2024

CITY OF EL CAJON, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Balance Sheets

June 30, 2024

(with Comparative Information for the Prior Year)

	<u>TDA Article 3</u>		<u>TDA Article 4</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Assets:				
Cash and investments (Note 3)	\$ -	\$ -	\$ 617,929	\$ 502,074
Due from other governments (Note 4)	<u>-</u>	<u>67,740</u>	<u>-</u>	<u>83,552</u>
 Total assets	 <u>\$ -</u>	 <u>\$ 67,740</u>	 <u>\$ 617,929</u>	 <u>\$ 585,626</u>
 Liabilities, Deferred Inflows of Resources, and Fund Balance:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 13,735	\$ 7,212
Due to City of El Cajon (Note 5)	<u>-</u>	<u>67,740</u>	<u>-</u>	<u>-</u>
Unearned revenue (Note 6)	<u>-</u>	<u>-</u>	<u>604,194</u>	<u>578,414</u>
 Total liabilities	 <u>-</u>	 <u>67,740</u>	 <u>617,929</u>	 <u>585,626</u>
 Deferred inflows of resources:				
Unavailable revenue (Note 7)	<u>-</u>	<u>67,740</u>	<u>-</u>	<u>-</u>
 Total deferred inflows of resources	 <u>-</u>	 <u>67,740</u>	 <u>-</u>	 <u>-</u>
 Fund balance (deficit):				
Unassigned	<u>-</u>	<u>(67,740)</u>	<u>-</u>	<u>-</u>
 Total fund balance (deficit) (Note 8)	 <u>-</u>	 <u>(67,740)</u>	 <u>-</u>	 <u>-</u>
 Total liabilities, deferred inflows of resources, and fund balance	 <u>\$ -</u>	 <u>\$ 67,740</u>	 <u>\$ 617,929</u>	 <u>\$ 585,626</u>

See notes to financial statements

CITY OF EL CAJON, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Schedule of Revenues, Expenditures and Changes in Fund Balances

**For the Fiscal Year Ended June 30, 2024
(with Comparative Information for the Prior Year)**

	TDA Article 3		TDA Article 4	
	2024	2023	2024	2023
Revenues:				
TDA funds	\$ 67,740	\$ -	\$ 72,729	\$ 71,492
Investment income	<u>-</u>	<u>-</u>	<u>21,947</u>	<u>8,806</u>
Total revenues	<u>67,740</u>	<u>-</u>	<u>94,676</u>	<u>80,298</u>
Expenditures:				
Construction and development	<u>-</u>	<u>-</u>	<u>94,676</u>	<u>80,298</u>
Total expenditures	<u>-</u>	<u>-</u>	<u>94,676</u>	<u>80,298</u>
Change in fund balance	67,740	-	-	-
Fund balance (deficit) at beginning of year	<u>(67,740)</u>	<u>(67,740)</u>	<u>-</u>	<u>-</u>
Fund balance (deficit) at end of year	<u>\$ -</u>	<u>\$ (67,740)</u>	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements

CITY OF EL CAJON, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(1) General Information

The financial statements of the Transportation Development Act Article 3 and Article 4 Funds Activity are intended to present the financial position and changes in financial position of only those transactions attributable to the TDA Funds administered and disbursed by the City of El Cajon, California and do not purport to, and do not, present fairly the financial position of the City, the changes in its financial position in accordance with accounting principles generally accepted in the United States of America.

Pursuant to §99234 of the California Public Utilities Code, Article 3 monies may be used only for facilities provided for the exclusive use of pedestrians and bicycles, including the construction and related engineering expenditures of those facilities, the maintenance of bicycle trails (which are closed to motorized traffic) and bicycle safety education programs. Facilities that provide for the use of bicycles may include projects that serve the needs of commuting bicyclists, including, but not limited to, new trails serving major transportation corridors, secure bicycle parking at employment centers, park and ride lots, and transit terminals where other funds are unavailable. Funding for this program was authorized by the San Diego Association of Governments (SANDAG).

Pursuant to §99260 of the California Public Utilities Code, Article 4 monies may be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects. Funding for this program was authorized by the San Diego Association of Governments (SANDAG).

(2) Summary of Significant Accounting Policies

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, obligations, reserves and equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The TDA Funds are accounted for as Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are usually required by law or administrative regulation to be accounted for in separate funds.

Measurement Focus and Basis of Accounting

Special Revenue Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

CITY OF EL CAJON, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Recognition of revenues arising from nonexchange transactions, which include revenues from taxes, certain grants and contributions, is based on the primary characteristic from which the revenues are received by the City. For the City, funds received under TDA Article 3 and 4 possess the characteristic of a voluntary nonexchange transaction similar to a grant. Revenues under TDA Article 3 and 4 are recognized in the period when all eligibility requirements have been met.

Deferred Outflows and Inflows of Resources

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of fund balance that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure) until that time. The TDA Fund currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund balance that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The TDA Fund has only one type of this item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category and is reported as unavailable revenue. The unavailable revenue arises when potential revenues do not meet both the measurable and availability criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the deferred inflow of resources is removed from the balance sheet and revenue is recognized.

Fund Equity

The components of the fund balances of governmental funds reflect the classifications described below.

- *Nonspendable Fund Balance* – this includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- *Restricted Fund Balance* – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed Fund Balance* – includes amounts that can be used only for the specific purposes determined by a formal action of the City Council.

CITY OF EL CAJON, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

- *Assigned Fund Balance* – includes amounts that are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted or committed.
- *Unassigned Fund Balance* – includes the remaining spendable amounts which are not included in one of the other classifications, plus any deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the City Council.

Use of Estimates

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as needed. City Council Policy establishes the order of use of unrestricted fund balance. Committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. The information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's prior year TDA Fund financial statements from which this selected data was derived.

(3) Cash and Investments

The City has pooled its cash and investments in order to achieve a higher return on investments while facilitating management of cash. The balance in the pool account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms. The TDA Article 4 Fund's cash and investments as of June 30, 2024 and 2023 were \$617,929 and \$502,074, respectively.

The TDA Fund's cash is deposited in the City's internal investment pool, which is reported at fair value. Interest income is allocated on the basis of average cash balances. Investment policies and associated risk factors applicable to the TDA Program are those of the City and are included in the City's basic financial statements.

CITY OF EL CAJON, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Notes to Financial Statements

(Continued)

(3) Cash and Investments (Continued)

See the City's basic financial statements for disclosures related to cash and investments including those disclosures relating to interest rate risk, credit rate risk, custodial credit risk and concentration risk.

(4) Due from Other Governments

Due from other governments in the amount of \$0 and \$67,740 as of June 30, 2024 and 2023, respectively, represents a receivable from SANDAG for reimbursement of eligible TDA Article 3 expenditures. Additionally, due from other governments in the amount of \$0 and \$83,552 as of June 30, 2024 and 2023, respectively, represents a receivable from MTS for reimbursement of eligible TDA Article 4 expenditures.

(5) Due to City of El Cajon

Due to The City of El Cajon in the amount of \$0 and \$67,740 as of June 30, 2024 and 2023, respectively, represents cash advanced from other funds of the City to pay for eligible TDA 3 expenditures.

(6) Unearned Revenue

TDA Article 4 monies allocated to the City by SANDAG for specific capital improvements of trolley and bus facilities are considered earned when they are properly spent for the specific projects authorized. Allocations received but not used are reported as unearned revenue. The balance of unearned revenue as of June 30, 2024 and 2023 was \$604,194 and \$578,415, respectively.

(7) Unavailable Revenue

Unavailable revenue in the amount of \$0 and \$67,740 as of June 30, 2024 and 2023, respectively, for TDA Article 3 represents a receivable from SANDAG for eligible TDA expenditures which were not received within the City's availability period.

(8) Deficit Fund Balance

The TDA Article 3 Fund reported a deficit fund balance of \$0 and \$67,740 as of June 30, 2024 and 2023, respectively.

(9) Budgetary Data

The City adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America and utilizes an encumbrance system as a management control technique to assist in controlling expenditures and enforcing revenue provisions. Under this system, the current year expenditures are charged against appropriations. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any significant reconciling items.

CITY OF EL CAJON, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Notes to Financial Statements

(Continued)

(10) Restrictions

Funds received pursuant to the California Public Utilities Code §99234 (TDA Article 3) may only be used for facilities provided for exclusive use by bicycle and pedestrian facilities or bicycle safety programs. Funds received pursuant to the California Public Utilities Code §99260 (TDA Article 4) may only be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects.

(11) Contingencies

Disclosures related to contingencies, including those related to various legal actions, administrative proceedings, or claims in the ordinary course of operations, can be found in the audited financial statements of the City.

Supplementary Information

CITY OF EL CAJON, CALIFORNIA

**Transportation Development Act
Article 3 & 4 Fund**

**Schedule of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

For the Fiscal Year Ended June 30, 2024

	Budget			Variance From Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues:				
TDA funds	\$ 138,518	\$ 138,518	\$ 162,416	\$ 23,898
Total revenues	<u>138,518</u>	<u>138,518</u>	<u>162,416</u>	<u>23,898</u>
Expenditures:				
Construction and development	<u>124,931</u>	<u>124,931</u>	<u>94,676</u>	<u>30,255</u>
Total expenditures	<u>124,931</u>	<u>124,931</u>	<u>94,676</u>	<u>30,255</u>
Change in fund balance	<u>\$ 13,587</u>	<u>\$ 13,587</u>	\$ 67,740	<u>\$ 54,153</u>
Fund balance (deficit) at beginning of year			<u>(67,740)</u>	
Fund balance at end of year			<u>\$ -</u>	

CITY OF EL CAJON, CALIFORNIA

**Transportation Development Act
Article 3 & 4 Fund**

**Schedule of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

For the Fiscal Year Ended June 30, 2023

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
TDA funds	\$ 85,000	\$ 85,000	\$ 80,298	\$ (4,702)
Total revenues	85,000	85,000	80,298	(4,702)
Expenditures:				
Construction and development	117,506	117,506	80,298	37,208
Total expenditures	117,506	117,506	80,298	37,208
Change in fund balance	\$ (32,506)	\$ (32,506)	\$ -	\$ 32,506
Fund balance (deficit) at beginning of year			(67,740)	
Fund balance (deficit) at end of year			\$ (67,740)	

CITY OF EL CAJON, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Schedule of Status of Funds by Project

For the Fiscal Year Ended June 30, 2024

Claim Number	Project Description	Project Status at 6/30/23	Allocations Received	Interest Earned	Qualifying Project Expenditures	Project Status at 6/30/24	Notes
Article 3:							
19011001	Active Transportation Plan	\$ (67,740)	\$ 67,740	\$ -	\$ -	\$ -	(a)
Article 4:							
PW00000059	Bus Stop Maint & Repair; Intersection (PW3483)	575,619	-	21,947	-	597,566	
0000014906	Bus Stop Maint & repair	-	-	-	(94,676)	(94,676)	(b)
978	Bus Stop Maint & repair	-	101,893	-	-	101,893	
Totals		<u>\$ 507,879</u>	<u>\$ 169,633</u>	<u>\$ 21,947</u>	<u>\$ (94,676)</u>	<u>\$ 604,783</u>	

Notes

- (a) The City received the final reimbursement for the TDA 3 Grant Project in FY24. The TDA 3 Grant is now complete.
(b) The City plans to request reimbursement for the \$94,676 project deficit in FY25.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Transportation Development Act (TDA) Article 3 and Article 4 Funds (TDA Funds) of the City of El Cajon, California (City), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements, and have issued our report thereon dated December 13, 2024.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the TDA Fund of the City are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including §6666 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including §6666 of Part 21 of the California Code of Regulations.

Purpose of this Report

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

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

Irvine, California
December 13, 2024

CITY OF ESCONDIDO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Financial Statements

For the Fiscal Year Ended June 30, 2024

CITY OF ESCONDIDO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Financial Statements

For the Fiscal Year Ended June 30, 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Transportation Development Act ("TDA") Article 3 Fund ("TDA Fund") of the City of Escondido, California ("City") as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the TDA Fund as of June 30, 2024, and the change in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the TDA Fund of the City and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2024, the changes in its financial position, for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion is not modified with respect to this matter.

Board of Directors
San Diego Association of Governments
San Diego, California

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the TDA Fund of the City. The *Schedule of Revenues, Expenditures and Change in Fund Balance – Budget and Actual* and *Schedule of Status of Fund by Project*, listed as Supplementary Information in the Table of Contents, is presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2024 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Irvine, California
December 13, 2024

CITY OF ESCONDIDO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Balance Sheets

**June 30, 2024
(with Comparative Information for the Prior Year)**

	TDA Article 3	
	2024	2023
Assets:		
Due from other governments (Note 3)	\$ -	\$ 300,407
Total assets	<u>\$ -</u>	<u>\$ 300,407</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance:		
Liabilities:		
Due to City of Escondido (Note 4)	\$ -	\$ 300,407
Total liabilities	<u>-</u>	<u>300,407</u>
Deferred inflows of resources:		
Unavailable revenue (Note 5)	<u>-</u>	<u>300,407</u>
Total deferred inflows of resources	<u>-</u>	<u>300,407</u>
Fund balance (deficit):		
Unassigned (Note 6)	<u>-</u>	<u>(300,407)</u>
Total fund balance (deficit)	<u>-</u>	<u>(300,407)</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ -</u>	<u>\$ 300,407</u>

See notes to financial statements

CITY OF ESCONDIDO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Statement of Revenues, Expenditures and Changes in Fund Balances

**For the Fiscal Year Ended June 30, 2024
(with Comparative Information for the Prior Year)**

	TDA Article 3	
	2024	2023
Revenues:		
TDA funds	\$ 300,407	\$ -
Total revenues	300,407	-
Expenditures:		
Construction and development	-	-
Total expenditures	-	-
Change in fund balance	300,407	-
Fund balance (deficit) at beginning of year	(300,407)	(300,407)
Fund balance (deficit) at end of year	\$ -	\$ (300,407)

See notes to financial statements

CITY OF ESCONDIDO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(1) General Information

The financial statements of the Transportation Development Act Article 3 Fund Activity are intended to present the financial position and changes in financial position of only those transactions attributable to the TDA Funds administered and disbursed by the City of Escondido, California and do not purport to, and do not, present fairly the financial position of the City, the changes in its financial position in accordance with accounting principles generally accepted in the United States of America.

Pursuant to §99234 of the California Public Utilities Code, Article 3 monies may be used only for facilities provided for the exclusive use of pedestrians and bicycles, including the construction and related engineering expenditures of those facilities, the maintenance of bicycle trails (which are closed to motorized traffic) and bicycle safety education programs. Facilities that provide for the use of bicycles may include projects that serve the needs of commuting bicyclists, including, but not limited to, new trails serving major transportation corridors, secure bicycle parking at employment centers, park and ride lots, and transit terminals where other funds are unavailable. Funding for this program was authorized by the San Diego Association of Governments (SANDAG).

(2) Summary of Significant Accounting Policies

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, obligations, reserves and equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The TDA Fund is accounted for as Special Revenue Fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are usually required by law or administrative regulation to be accounted for in separate funds.

Measurement Focus and Basis of Accounting

Special Revenue Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when liability is incurred.

CITY OF ESCONDIDO, CALIFORNIA

Transportation Development Act Article 3 Fund

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Recognition of revenues arising from nonexchange transactions, which include revenues from taxes, certain grants and contributions, is based on the primary characteristic from which the revenues are received by the City. For the City, funds received under TDA Article 3 possess the characteristic of a voluntary nonexchange transaction similar to a grant. Revenues under TDA Article 3 are recognized in the period when all eligibility requirements have been met.

Deferred Outflows and Inflows of Resources

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of fund balance that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure) until that time. The TDA Fund currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund balance that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The TDA Fund has only one type of this item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category, and is reported as unavailable revenue. The unavailable revenue arises when potential revenues do not meet both the measurable and availability criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the deferred inflow of resources is removed from the balance sheet and revenue is recognized.

Fund Equity

The components of the fund balances of governmental funds reflect the classifications described below.

- *Nonspendable Fund Balance* – this includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- *Restricted Fund Balance* – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed Fund Balance* – includes amounts that can be used only for the specific purposes determined by a formal action of the City Council.

CITY OF ESCONDIDO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

- *Assigned Fund Balance* – includes amounts that are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted or committed.
- *Unassigned Fund Balance* – includes the remaining spendable amounts which are not included in one of the other classifications, plus any deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the City Council.

Use of Estimates

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as needed. City Council Policy establishes the order of use of unrestricted fund balance. Committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. The information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's prior year TDA Fund financial statements from which this selected data was derived.

(3) Due from Other Governments

Due from other governments in the amount of \$0 and \$300,407 as of June 30, 2024 and 2023, respectively, represents a receivable from SANDAG for reimbursement of eligible TDA expenditures.

(4) Due to City of Escondido

Due to City of Escondido in the amount of \$0 and \$300,407 as of June 30, 2024 and 2023, respectively, represents a payable to the City for reimbursement of eligible TDA expenditures paid on behalf of the TDA Fund.

CITY OF ESCONDIDO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Notes to Financial Statements

(Continued)

(5) Unavailable Revenue

Unavailable revenue in the amount of \$0 and \$300,407 as of June 30, 2024 and 2023, respectively, for TDA Article 3 represents a receivable from SANDAG for eligible TDA expenditures which were not received within the City's availability period.

(6) Deficit Fund Balance

The TDA Fund reported a deficit fund balance of \$0 and \$300,407 as of June 30, 2024 and 2023, respectively. This deficit fund balance was cured during the fiscal year ending June 30, 2024, with the receipt of TDA funds as reimbursement for eligible expenditures.

(7) Budgetary Data

The City adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America and utilizes an encumbrance system as a management control technique to assist in controlling expenditures and enforcing revenue provisions. Under this system, the current year expenditures are charged against appropriations. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any significant reconciling items.

(8) Restrictions

Fund received pursuant to the California Public Utilities Code §99234 (TDA Article 3) may only be used for facilities provided for exclusive use by bicycle and pedestrian facilities or bicycle safety programs.

(9) Contingencies

Disclosures related to contingencies including those related to various legal actions, administrative proceedings, or claims in the ordinary course of operations, can be found in the audited financial statements of the City.

Supplementary Information

CITY OF ESCONDIDO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

**Statement of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

For the Fiscal Year Ended June 30, 2024

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
TDA funds	\$ -	\$ -	\$ 300,407	\$ 300,407
Total revenues	-	-	300,407	300,407
Expenditures:				
Construction and development	-	-	-	-
Total expenditures	-	-	-	-
Change in fund balance	\$ -	\$ -	\$ 300,407	\$ 300,407
Fund balance (deficit) at beginning of year			(300,407)	
Fund balance (deficit) at end of year			\$ -	

CITY OF ESCONDIDO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

**Statement of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

For the Fiscal Year Ended June 30, 2023

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
TDA funds	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures:				
Construction and development	-	-	-	-
Total expenditures	-	-	-	-
Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	\$ -	<u>\$ -</u>
Fund balance (deficit) at beginning of year			<u>(300,407)</u>	
Fund balance (deficit) at end of year			<u>\$ (300,407)</u>	

CITY OF ESCONDIDO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Schedule of Status of Funds by Project

For the Fiscal Year Ended June 30, 2024

Claim Number	Project Description	Project Status at 6/30/23	Allocations Received	Interest Earned	Qualifying Project Expenditures	Project Status at 6/30/24	Notes
16011005	El Norte Pedestrian Signal	<u>\$ (300,407)</u>	<u>\$ 300,407</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	(a)
	Totals	<u>\$ (300,407)</u>	<u>\$ 300,407</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

Notes

(a) The City of Escondido received their final reimbursement for the TDA Grant in FY 2024.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Transportation Development Act (TDA) Article 3 (TDA Fund) of the City of Escondido, California (City), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements, and have issued our report thereon dated December 13, 2024.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Board of Directors
San Diego Association of Governments
San Diego, California

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the TDA Fund of the City are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including §6666 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including §6666 of Part 21 of the California Code of Regulations.

Purpose of this Report

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

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

Irvine, California
December 13, 2024

CITY OF LA MESA, CALIFORNIA
Transportation Development Act
Article 3 and Article 4 Funds
Financial Statements
For the Fiscal Year Ended June 30, 2024

CITY OF LA MESA, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Financial Statements

For the Fiscal Year Ended June 30, 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Transportation Development Act ("TDA") Article 3 and Article 4 Funds ("TDA Funds") of the City of La Mesa, California ("City") as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the TDA Funds as of June 30, 2024, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the TDA Funds of the City and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2024, and the respective changes in its financial position, for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinions are not modified with respect to this matter.

Board of Directors
San Diego Association of Governments
San Diego, California

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the TDA Funds of the City. The *Schedule of Revenues, Expenditures and Change in Fund Balance – Budget and Actual* and *Schedule of Status of Funds by Project*, listed as Supplemental Information in the Table of Contents, is presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2024 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Irvine, California
December 13, 2024

CITY OF LA MESA, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Balance Sheets

June 30, 2024

(with Comparative Information for the Prior Year)

	TDA Article 3		TDA Article 4	
	2024	2023	2024	2023
Assets:				
Cash and investments (Note 3)	\$ -	\$ -	\$ -	\$ 6,020
Interest receivable	-	-	-	11
Due from other governments (Note 4)	-	-	78,500	21,267
	<u>-</u>	<u>-</u>	<u>78,500</u>	<u>21,267</u>
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,500</u>	<u>\$ 27,298</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance:				
Liabilities:				
Due to City of La Mesa (Note 5)	\$ -	\$ -	\$ 77,741	\$ 21,267
Unearned revenue (Note 6)	-	-	-	6,691
	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,691</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>77,741</u>	<u>27,958</u>
Deferred inflows of resources:				
Unavailable revenue (Note 7)	-	-	78,500	21,267
	<u>-</u>	<u>-</u>	<u>78,500</u>	<u>21,267</u>
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>78,500</u>	<u>21,267</u>
Fund balance (deficit):				
Unassigned	-	-	(77,741)	(21,927)
	<u>-</u>	<u>-</u>	<u>(77,741)</u>	<u>(21,927)</u>
Total fund balance (deficit) (Note 8)	<u>-</u>	<u>-</u>	<u>(77,741)</u>	<u>(21,927)</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 78,500</u>	<u>\$ 27,298</u>

See notes to financial statements

CITY OF LA MESA, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Schedule of Revenues, Expenditures and Changes in Fund Balances

**For the Fiscal Year Ended June 30, 2024
(with Comparative Information for the Prior Year)**

	TDA Article 3		TDA Article 4	
	2024	2023	2024	2023
Revenues:				
TDA funds	\$ -	\$ 27,004	\$ 21,267	\$ -
Interest income (loss)	-	-	1,407	(660)
Total revenues	-	27,004	22,674	(660)
Expenditures:				
Construction and development	-	-	78,488	21,267
Total expenditures	-	-	78,488	21,267
Change in fund balance	-	27,004	(55,814)	(21,927)
Fund balance (deficit) at beginning of year	-	(27,004)	(21,927)	-
Fund balance (deficit) at end of year	\$ -	\$ -	\$ (77,741)	\$ (21,927)

See notes to financial statements

CITY OF LA MESA, CALIFORNIA

Transportation Development Act Article 3 and Article 4 Funds

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(1) General Information

The financial statements of the Transportation Development Act Article 3 and Article 4 Funds Activity are intended to present the financial position and changes in financial position of only those transactions attributable to the TDA Funds administered and disbursed by the City of La Mesa, California and do not purport to, and do not, present fairly the financial position of the City, the changes in its financial position in accordance with accounting principles generally accepted in the United States of America.

Pursuant to §99234 of the California Public Utilities Code, Article 3 monies may be used only for facilities provided for the exclusive use of pedestrians and bicycles, including the construction and related engineering expenditures of those facilities, the maintenance of bicycle trails (which are closed to motorized traffic) and bicycle safety education programs. Facilities that provide for the use of bicycles may include projects that serve the needs of commuting bicyclists, including, but not limited to, new trails serving major transportation corridors, secure bicycle parking at employment centers, park and ride lots, and transit terminals where other funds are unavailable. Funding for this program was authorized by the San Diego Association of Governments (SANDAG).

Pursuant to §99260 of the California Public Utilities Code, Article 4 monies may be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects. Funding for this program was authorized by the San Diego Association of Governments (SANDAG).

(2) Summary of Significant Accounting Policies

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, obligations, reserves and equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The TDA Funds are accounted for as Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are usually required by law or administrative regulation to be accounted for in separate funds.

Measurement Focus and Basis of Accounting

Special Revenue Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

CITY OF LA MESA, CALIFORNIA

Transportation Development Act Article 3 and Article 4 Funds

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Recognition of revenues arising from nonexchange transactions, which include revenues from taxes, certain grants and contributions, is based on the primary characteristic from which the revenues are received by the City. For the City, funds received under TDA Article 3 and 4 possess the characteristic of a voluntary nonexchange transaction similar to a grant. Revenues under TDA Article 3 and 4 are recognized in the period when all eligibility requirements have been met.

Deferred Outflows and Inflows of Resources

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of fund balance that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure) until that time. The TDA Fund currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund balance that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The TDA Fund has only one type of this item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category and is reported as unavailable revenue. The unavailable revenue arises when potential revenues do not meet both the measurable and availability criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the deferred inflow of resources is removed from the balance sheet and revenue is recognized.

Fund Equity

The components of the fund balances of governmental funds reflect the classifications described below.

- *Nonspendable Fund Balance* – this includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- *Restricted Fund Balance* – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed Fund Balance* – includes amounts that can be used only for the specific purposes determined by a formal action of the City Council.

CITY OF LA MESA, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

- *Assigned Fund Balance* – includes amounts that are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted or committed.
- *Unassigned Fund Balance* – includes the remaining spendable amounts which are not included in one of the other classifications, plus any deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the City Council.

Use of Estimates

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as needed. City Council Policy establishes the order of use of unrestricted fund balance. Committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. The information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's prior year TDA Fund financial statements from which this selected data was derived.

(3) Cash and Investments

The City has pooled its cash and investments in order to achieve a higher return on investments while facilitating management of cash. The balance in the pool account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms. The TDA Article 3 and Article 4 Fund's cash and investments as of June 30, 2024 and 2023 were \$0 and \$6,020, respectively.

The TDA Fund's cash is deposited in the City's internal investment pool, which is reported at fair value. Interest income is allocated on the basis of average cash balances. Investment policies and associated risk factors applicable to the TDA Program are those of the City and are included in the City's basic financial statements.

CITY OF LA MESA, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Notes to Financial Statements

(Continued)

(3) Cash and Investments (Continued)

See the City's basic financial statements for disclosures related to cash and investments including those disclosures relating to interest rate risk, credit rate risk, custodial credit risk and concentration risk.

(4) Due from Other Governments

Due from other governments in the amount of \$78,500 and \$21,267 as of June 30, 2024 and 2023, respectively, represents a receivable from SANDAG for reimbursement of eligible TDA Article 4 expenditures.

(5) Due to City of La Mesa

Due to the City of La Mesa in the amount of \$77,741 and \$21,267 as of June 30, 2024 and 2023, respectively, represents a receivable from SANDAG for reimbursement of eligible TDA Article 4 expenditures.

(6) Unearned Revenue

TDA Article 4 monies allocated to the City by SANDAG for specific capital improvements of trolley and bus facilities are considered earned when they are properly spent for the specific projects authorized. Allocations and any interest received but not used are reported as unearned revenue. The balance of unearned revenue as of June 30, 2024 and 2023 was \$0 and \$6,691, respectively.

(7) Unavailable Revenue

Unavailable revenue in the amount of \$78,500 and \$21,267 as of June 30, 2024 and 2023, respectively, for TDA Article 4 represents a receivable from SANDAG for eligible TDA expenditures which were not received within the City's availability period.

(8) Deficit Fund Balance

The TDA 4 Fund reported a deficit fund balance of \$77,741 and \$21,927 as of June 30, 2024 and 2023, respectively. This deficit fund balance will be cured during the year ending June 30, 2025, with the receipt of TDA 4 funds as reimbursement for eligible expenditures.

(9) Budgetary Data

The City adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America and utilizes an encumbrance system as a management control technique to assist in controlling expenditures and enforcing revenue provisions. Under this system, the current year expenditures are charged against appropriations. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any significant reconciling items. Expenditures exceeded budgeted appropriations by \$8 for the year ended June 30, 2024.

CITY OF LA MESA, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Notes to Financial Statements

(Continued)

(10) Restrictions

Funds received pursuant to the California Public Utilities Code §99234 (TDA Article 3) may only be used for facilities provided for exclusive use by bicycle and pedestrian facilities or bicycle safety programs. Funds received pursuant to the California Public Utilities Code §99260 (TDA Article 4) may only be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects.

(11) Contingencies

Disclosures related to contingencies, including those related to various legal actions, administrative proceedings, or claims in the ordinary course of operations, can be found in the audited financial statements of the City.

Supplementary Information

CITY OF LA MESA, CALIFORNIA

**Transportation Development Act
Article 3 & 4 Funds**

**Schedule of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

For the Fiscal Year Ended June 30, 2024

	Budget			Variance From Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues:				
TDA funds	\$ 21,267	\$ 21,267	\$ 21,267	\$ -
Interest income (loss)	1,407	1,407	1,407	-
Total revenues	<u>22,674</u>	<u>22,674</u>	<u>22,674</u>	<u>-</u>
Expenditures:				
Construction and development	<u>78,480</u>	<u>78,480</u>	<u>78,488</u>	<u>(8)</u>
Total expenditures	<u>78,480</u>	<u>78,480</u>	<u>78,488</u>	<u>(8)</u>
Change in fund balance	<u>\$ (55,806)</u>	<u>\$ (55,806)</u>	(55,814)	<u>\$ (8)</u>
Fund balance (deficit) at beginning of year			<u>(21,927)</u>	
Fund balance (deficit) at end of year			<u>\$ (77,741)</u>	

CITY OF LA MESA, CALIFORNIA

**Transportation Development Act
Article 3 & 4 Funds**

**Schedule of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

For the Fiscal Year Ended June 30, 2023

	<u>Budget</u>			Variance From Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
TDA funds	\$ 21,267	\$ 21,267	\$ 27,004	\$ 5,737
Interest income (loss)	<u>-</u>	<u>-</u>	<u>(660)</u>	<u>(660)</u>
Total revenues	<u>21,267</u>	<u>21,267</u>	<u>26,344</u>	<u>5,077</u>
Expenditures:				
Construction and development	<u>21,267</u>	<u>21,267</u>	<u>21,267</u>	<u>-</u>
Total expenditures	<u>21,267</u>	<u>21,267</u>	<u>21,267</u>	<u>-</u>
Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	5,077	<u>\$ 5,077</u>
Fund balance (deficit) at beginning of year			<u>(27,004)</u>	
Fund balance (deficit) at end of year			<u>\$ (21,927)</u>	

CITY OF LA MESA, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Schedule of Status of Funds by Project

For the Fiscal Year Ended June 30, 2024

Claim Number	Project Description	Project Status at 6/30/23	Allocations Received	Interest Earned	Qualifying Project Expenditures	City Adjustments	Project Status at 6/30/24	Notes
Article 3:								
19011003	University Avenue Corridor	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
19011004	Massachusetts Ave. & Blackton Dr.	-	-	-	-	-	-	
Article 4:								
	MTS Spring Street Maintenance - Tree Trimming	(6,040)	6,040	-	(4,818)	-	(4,818)	(a)
	MTS Related Traffic Signal Maintenance	(13,069)	12,409	464	(73,670)	943	(72,923)	(a)(b)
	MTS Plan Review Fees - Grossmont Bridge	<u>(2,818)</u>	<u>2,818</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
	Totals	<u>\$ (21,927)</u>	<u>\$ 21,267</u>	<u>\$ 464</u>	<u>\$ (78,488)</u>	<u>\$ 943</u>	<u>\$ (77,741)</u>	

Notes

- (a) The deficit balance will be cured during the year ending June 30, 2024 with the receipt of TDA funds as reimbursement for eligible expenditures.
(b) Adjustment is to record a prior year correction of interest allocation.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Transportation Development Act (TDA) Article 3 and Article 4 Funds (TDA Funds) of the City of La Mesa, California (City), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements, and have issued our report thereon dated December 13, 2024.

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a material weaknesses.

(1) Material Misstatements Detected in Financial Statements

As a result of our audit procedures, we detected material misstatements in the financial statements. We recorded adjusting journal entries to correct unavailable revenues, revenues recorded in error, and interest income. We recommend the City carefully review revenues to ensure they are accurately recorded and recognized. We also recommend the City maintain a complete self-balancing set of records for the TDA activities for purposes of ensuring the assets and liabilities are correctly recorded.

Management's Response to Finding

With the implementation of a new ERP system we found that some funds were erroneously loaded through working with our main auditing firm, RAMS. Adjusting journal entries were made to correct balances and recommended checks have already been established and are in place.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the TDA Fund of the City are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including §6666 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including §6666 of Part 21 of the California Code of Regulations.

City's Response to Findings

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

Purpose of this Report

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



Irvine, California
December 13, 2024

CITY OF LEMON GROVE, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

Financial Statements

For the Fiscal Year Ended June 30, 2024

CITY OF LEMON GROVE, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

Financial Statements

For the Fiscal Year Ended June 30, 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Transportation Development Act ("TDA") Article 4 Fund ("TDA Fund") of the City of Lemon Grove, California ("City") as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the TDA Fund as of June 30, 2024, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the TDA Funds of the City and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2024, the changes in its financial position, for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplemental Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinions are not modified with respect to this matter.

Board of Directors
San Diego Association of Governments
San Diego, California

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the TDA Funds of the City. The *Schedule of Revenues, Expenditures and Change in Fund Balance – Budget and Actual* and *Schedule of Status of Funds by Project*, listed as Supplemental Information in the Table of Contents, is presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2024 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Davis Fan" followed by a stylized flourish.

Irvine, California
December 19, 2024

CITY OF LEMON GROVE, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

Balance Sheets

**June 30, 2024
(with Comparative Information for the Prior Year)**

	TDA Article 4	
	2024	2023
Assets:		
Due from other governments (Note 3)	\$ 158,990	\$ 57,250
Total assets	<u>\$ 158,990</u>	<u>\$ 57,250</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance:		
Liabilities:		
Due to City of Lemon Grove (Note 4)	\$ 143,510	\$ 56,040
Accounts payable	<u>15,480</u>	<u>1,210</u>
Total liabilities	<u>158,990</u>	<u>57,250</u>
Deferred inflows of resources:		
Unavailable revenue (Note 5)	<u>101,493</u>	<u>57,250</u>
Total deferred inflows of resources	<u>101,493</u>	<u>57,250</u>
Fund balance (deficit):		
Unassigned	<u>(101,493)</u>	<u>(57,250)</u>
Total fund balance (deficit) (Note 6)	<u>(101,493)</u>	<u>(57,250)</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 158,990</u>	<u>\$ 57,250</u>

See notes to financial statements

CITY OF LEMON GROVE, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

Statement of Revenues, Expenditures and Changes in Fund Balances

**For the Fiscal Year Ended June 30, 2024
(with Comparative Information for the Prior Year)**

	TDA Article 4	
	2024	2023
Revenues:		
TDA funds	\$ 57,497	\$ 95,085
Total revenues	57,497	95,085
Expenditures:		
Construction and development	101,740	52,836
Total expenditures	101,740	52,836
Change in fund balance	(44,243)	42,249
Fund balance (deficit) at beginning of year	(57,250)	(99,499)
Fund balance (deficit) at end of year	\$ (101,493)	\$ (57,250)

See notes to financial statements

CITY OF LEMON GROVE, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(1) General Information

The financial statements of the Transportation Development Act Article 4 Fund Activity are intended to present the financial position and changes in financial position of only those transactions attributable to the TDA Funds administered and disbursed by the City of Lemon Grove, California and do not purport to, and do not, present fairly the financial position of the City, the changes in its financial position in accordance with accounting principles generally accepted in the United States of America.

Pursuant to §99260 of the California Public Utilities Code, Article 4 monies may be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects. Funding for this program was authorized by the San Diego Association of Governments (SANDAG).

(2) Summary of Significant Accounting Policies

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, obligations, reserves and equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The TDA Funds are accounted for as Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are usually required by law or administrative regulation to be accounted for in separate funds.

Measurement Focus and Basis of Accounting

Special Revenue Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

CITY OF LEMON GROVE, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Recognition of revenues arising from nonexchange transactions, which include revenues from taxes, certain grants and contributions, is based on the primary characteristic from which the revenues are received by the City. For the City, funds received under TDA Article 4 possess the characteristic of a voluntary nonexchange transaction similar to a grant. Revenues under TDA Article 4 are recognized in the period when all eligibility requirements have been met.

Deferred Outflows and Inflows of Resources

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of fund balance that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure) until that time. The TDA Fund currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund balance that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The TDA Fund has only one type of this item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category, and is reported as unavailable revenue. The unavailable revenue arises when potential revenues do not meet both the measurable and availability criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the deferred inflow of resources is removed from the balance sheet and revenue is recognized.

Fund Equity

The components of the fund balances of governmental funds reflect the classifications described below.

- *Nonspendable Fund Balance* – this includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- *Restricted Fund Balance* – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed Fund Balance* – includes amounts that can be used only for the specific purposes determined by a formal action of the City Council.

CITY OF LEMON GROVE, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

- *Assigned Fund Balance* – includes amounts that are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted or committed.
- *Unassigned Fund Balance* – includes the remaining spendable amounts which are not included in one of the other classifications, plus any deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the City Council.

Use of Estimates

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as needed. City Council Policy establishes the order of use of unrestricted fund balance. Committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. The information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's prior year TDA Fund financial statements from which this selected data was derived.

(3) Due from Other Governments

Due from other governments in the amount of \$158,990 and \$57,250 as of June 30, 2024 and 2023, respectively, represents a receivable from SANDAG for reimbursement of eligible TDA expenditures.

(4) Due to City of Lemon Grove

Due to City of Lemon Grove in the amount of \$143,510 and \$56,040 as of June 30, 2024 and 2023, respectively, represents cash advanced from other funds of the City to pay for eligible TDA expenditures.

(5) Unavailable Revenue

Unavailable revenue in the amount of \$101,493 and \$57,250 as of June 30, 2024 and 2023, respectively, for TDA Article 4 represents a receivable from SANDAG for eligible TDA expenditures which were not received within the City's availability period.

CITY OF LEMON GROVE, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

Notes to Financial Statements

(Continued)

(6) Deficit Fund Balance

The TDA Fund reported a deficit fund balance of \$101,493 and \$57,250 as of June 30, 2024 and 2023, respectively. This deficit fund balance will be resolved during the next fiscal year when unavailable revenue is recorded as revenue.

(7) Budgetary Data

The City adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America and utilizes an encumbrance system as a management control technique to assist in controlling expenditures and enforcing revenue provisions. Under this system, the current year expenditures are charged against appropriations. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any significant reconciling items.

(8) Restrictions

Funds received pursuant to the California Public Utilities Code §99260 (TDA Article 4) may only be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects.

(9) Contingencies

Disclosures related to contingencies including those related to various legal actions, administrative proceedings, or claims in the ordinary course of operations, can be found in the audited financial statements of the City.

Supplemental Information

CITY OF LEMON GROVE, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

**Statement of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

Year Ended June 30, 2024

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
TDA funds	\$ 100,196	\$ 100,196	\$ 57,497	\$ (42,699)
Total revenues	<u>100,196</u>	<u>100,196</u>	<u>57,497</u>	<u>(42,699)</u>
Expenditures:				
Construction and development	<u>121,170</u>	<u>121,170</u>	<u>101,740</u>	<u>19,430</u>
Total expenditures	<u>121,170</u>	<u>121,170</u>	<u>101,740</u>	<u>19,430</u>
Change in fund balance	<u>\$ (20,974)</u>	<u>\$ (20,974)</u>	\$ (44,243)	<u>\$ (23,269)</u>
Fund balance (deficit) at beginning of year			<u>(57,250)</u>	
Fund balance (deficit) at end of year			<u>\$ (101,493)</u>	

CITY OF LEMON GROVE, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

**Statement of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

Year Ended June 30, 2023

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
TDA funds	<u>\$ 121,170</u>	<u>\$ 121,170</u>	<u>\$ 95,085</u>	<u>\$ (26,085)</u>
Total revenues	<u>121,170</u>	<u>121,170</u>	<u>95,085</u>	<u>(26,085)</u>
Expenditures:				
Construction and development	<u>121,170</u>	<u>121,170</u>	<u>52,836</u>	<u>68,334</u>
Total expenditures	<u>121,170</u>	<u>121,170</u>	<u>52,836</u>	<u>68,334</u>
Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,249</u>	<u>\$ 42,249</u>
Fund balance (deficit) at beginning of year			<u>(99,499)</u>	
Fund balance (deficit) at end of year			<u>\$ (57,250)</u>	

CITY OF LEMON GROVE, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

Schedule of Status of Funds by Project

For the Fiscal Year Ended June 30, 2024

Claim Number	Project Description	Project Status at 6/30/23	Allocations Received	Interest Earned	Qualifying Project Expenditures	City Adjustments	Project Status at 6/30/24	Notes
6260	Trolley Corridor Maintenance - Bus Shelters	\$ (17,618)	\$ 17,714	\$ -	\$ (28,436)	\$ (51)	\$ (28,391)	(a)(b)
6530	Trolley Corridor Landscape Maintenance	<u>(39,632)</u>	<u>39,783</u>	<u>-</u>	<u>(73,122)</u>	<u>(131)</u>	<u>(73,102)</u>	(a)(b)
Totals		<u>\$ (57,250)</u>	<u>\$ 57,497</u>	<u>\$ -</u>	<u>\$ (101,558)</u>	<u>\$ (182)</u>	<u>\$ (101,493)</u>	

Notes

- (a) An adjustment was made by the City to reflect additional FY23 Payroll Expenditures in FY24.
- (b) The City has requested a reimbursement from MTS for the remaining project balance in FY25.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Transportation Development Act (TDA) Article 4 Funds (TDA Funds) of the City of Lemon Grove, California (City), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements, and have issued our report thereon dated December 19, 2024.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Board of Directors
San Diego Association of Governments
San Diego, California

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the TDA Funds of the City are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including §6666 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including §6666 of Part 21 of the California Code of Regulations.

Purpose of this Report

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

A handwritten signature in blue ink, appearing to read "Davis", followed by a stylized flourish.

Irvine, California
December 19, 2024

CITY OF NATIONAL CITY, CALIFORNIA
Transportation Development Act
Article 3 Fund
Financial Statements
For the Fiscal Year Ended June 30, 2024

CITY OF NATIONAL CITY, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Financial Statements

For the Fiscal Year Ended June 30, 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Transportation Development Act ("TDA") Article 3 Fund ("TDA Fund") of the City of National City, California ("City") as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the TDA Funds as of June 30, 2024, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the TDA Funds of the City and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2024, the changes in its financial position, for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion is not modified with respect to this matter.

Board of Directors
San Diego Association of Governments
San Diego, California

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the TDA Funds of the City. The *Schedule of Revenues, Expenditures and Change in Fund Balance – Budget and Actual* and *Schedule of Status of Funds by Project*, listed as Supplementary Information in the Table of Contents, is presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2024 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

Irvine, California
December 13, 2024

CITY OF NATIONAL CITY, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Balance Sheet

June 30, 2024

(with Comparative Information for the Prior Year)

	TDA Article 3	
	2024	2023
Assets:		
Total assets	<u>\$ -</u>	<u>\$ -</u>
Liabilities and Fund Balance		
Liabilities:		
Total Liabilities	<u>-</u>	<u>-</u>
Fund balance:		
Total Fund Balance	<u>-</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements

CITY OF NATIONAL CITY, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Statement of Revenues, Expenditures and Changes in Fund Balances

**For the Fiscal Year Ended June 30, 2024
(with Comparative Information for the Prior Year)**

	TDA Article 3	
	2024	2023
Revenues:		
TDA funds	\$ -	\$ 340,336
Total revenues	-	340,336
Expenditures:		
Construction and development	-	21,407
Total expenditures	-	21,407
Change in fund balance	-	318,929
Fund balance (deficit) at beginning of year	-	(318,929)
Fund balance at end of year	\$ -	\$ -

See notes to financial statements

CITY OF NATIONAL CITY, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(1) General Information

The financial statements of the Transportation Development Act Article 3 Fund Activity are intended to present the financial position and changes in financial position of only those transactions attributable to the TDA Funds administered and disbursed by the City of National City, California and do not purport to, and do not, present fairly the financial position of the City, the changes in its financial position in accordance with accounting principles generally accepted in the United States of America.

Pursuant to §99234 of the California Public Utilities Code, Article 3 monies may be used only for facilities provided for the exclusive use of pedestrians and bicycles, including the construction and related engineering expenditures of those facilities, the maintenance of bicycle trails (which are closed to motorized traffic) and bicycle safety education programs. Facilities that provide for the use of bicycles may include projects that serve the needs of commuting bicyclists, including, but not limited to, new trails serving major transportation corridors, secure bicycle parking at employment centers, park and ride lots, and transit terminals where other funds are unavailable. Funding for this program was authorized by the San Diego Association of Governments (SANDAG).

(2) Summary of Significant Accounting Policies

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, obligations, reserves and equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The TDA Funds are accounted for as Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are usually required by law or administrative regulation to be accounted for in separate funds.

Measurement Focus and Basis of Accounting

Special Revenue Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

CITY OF NATIONAL CITY, CALIFORNIA

Transportation Development Act Article 3 Fund

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Recognition of revenues arising from nonexchange transactions, which include revenues from taxes, certain grants and contributions, is based on the primary characteristic from which the revenues are received by the City. For the City, funds received under TDA Article 3 possess the characteristic of a voluntary nonexchange transaction similar to a grant. Revenues under TDA Article 3 are recognized in the period when all eligibility requirements have been met.

Deferred Outflows and Inflows of Resources

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of fund balance that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure) until that time. The TDA Fund currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund balance that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The TDA Fund has only one type of this item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category, and is reported as unavailable revenue. The unavailable revenue arises when potential revenues do not meet both the measurable and availability criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the deferred inflow of resources is removed from the balance sheet and revenue is recognized.

Fund Equity

The components of the fund balances of governmental funds reflect the classifications described below.

- *Nonspendable Fund Balance* – this includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- *Restricted Fund Balance* – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed Fund Balance* – includes amounts that can be used only for the specific purposes determined by a formal action of the City Council.

CITY OF NATIONAL CITY, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

- *Assigned Fund Balance* – includes amounts that are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted or committed.
- *Unassigned Fund Balance* – includes the remaining spendable amounts which are not included in one of the other classifications, plus any deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the City Council.

Use of Estimates

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as needed. City Council Policy establishes the order of use of unrestricted fund balance. Committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. The information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's prior year TDA Fund financial statements from which this selected data was derived.

(3) Budgetary Data

The City adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America and utilizes an encumbrance system as a management control technique to assist in controlling expenditures and enforcing revenue provisions. Under this system, the current year expenditures are charged against appropriations. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any significant reconciling items.

(4) Restrictions

Funds received pursuant to the California Public Utilities Code §99234 (TDA Article 3) may only be used for facilities provided for exclusive use by bicycle and pedestrian facilities or bicycle safety programs.

CITY OF NATIONAL CITY, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Notes to Financial Statements

(Continued)

(5) Contingencies

Disclosures related to contingencies including those related to various legal actions, administrative proceedings, or claims in the ordinary course of operations, can be found in the audited financial statements of the City.

Supplementary Information

CITY OF NATIONAL CITY, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

**Schedule of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

For the Fiscal Year Ended June 30, 2024

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
TDA funds	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures:				
Construction and development	-	-	-	-
Total expenditures	-	-	-	-
Change in fund balance	\$ -	\$ -	\$ -	\$ -
Fund balance at beginning of year			-	
Fund balance at end of year			\$ -	

CITY OF NATIONAL CITY, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

**Schedule of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

For the Fiscal Year Ended June 30, 2023

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
TDA funds	\$ -	\$ -	\$ 340,336	\$ 340,336
Total revenues	-	-	340,336	340,336
Expenditures:				
Construction and development	316,625	316,625	21,407	295,218
Total expenditures	316,625	316,625	21,407	295,218
Change in fund balance	\$ (316,625)	\$ (316,625)	\$ 318,929	\$ 635,554
Fund balance (deficit) at beginning of year, as restated			(318,929)	
Fund balance at end of year			\$ -	

CITY OF NATIONAL CITY, CALIFORNIA

**Transportation Development Act
Article 3 Funds**

Schedule of Status of Funds by Project

For the Fiscal Year Ended June 30, 2024

<u>Claim Number</u>	<u>Project Description</u>	<u>Project Status at 6/30/23</u>	<u>Allocations Received</u>	<u>Interest Earned</u>	<u>Qualifying Project Expenditures</u>	<u>Project Status at 6/30/24</u>	<u>Notes</u>
19011006	National City Blvd. Intercity Bike Connections	\$ -	\$ -	\$ -	\$ -	\$ -	(a)
	Totals	\$ -	\$ -	\$ -	\$ -	\$ -	

Notes

(a) The City of National City TDA 3 Grant was completed in FY 2023.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Transportation Development Act (TDA) Article 3 Fund (TDA Fund) of the City of National City, California (City), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements, and have issued our report thereon dated December 13, 2024.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Board of Directors
San Diego Association of Governments
San Diego, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the TDA Funds of the City are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including §6666 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including §6666 of Part 21 of the California Code of Regulations.

Purpose of this Report

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

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

Irvine, California
December 13, 2024

CITY OF POWAY, CALIFORNIA
Transportation Development Act
Article 4 Fund
Financial Statements
For the Fiscal Year Ended June 30, 2024

CITY OF POWAY CALIFORNIA

Transportation Development Act
Article 4 Fund

Financial Statements

For the Fiscal Year Ended June 30, 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Transportation Development Act ("TDA") Article 4 Fund ("TDA Fund") of the City of Poway, California ("City") as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the TDA Fund as of June 30, 2024, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the TDA Funds of the City and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2024, the changes in its financial position, for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion is not modified with respect to this matter.

Board of Directors
San Diego Association of Governments
San Diego, California

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the TDA Funds of the City. The *Schedules of Revenues, Expenditures and Change in Fund Balance – Budget and Actual* and *Schedule of Status of Funds by Project*, listed as Supplementary Information in the Table of Contents, is presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2024 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Irvine, California
December 13, 2024

CITY OF POWAY, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

Balance Sheets

**June 30, 2024
(with Comparative Information for the Prior Year)**

	TDA Article 4	
	2024	2023
Assets:		
Cash and investments (Note 3)	\$ 368,196	\$ 364,536
Due from other governments (Note 4)	<u>29,633</u>	<u>30,194</u>
Total assets	<u>\$ 397,829</u>	<u>\$ 394,730</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance:		
Liabilities:		
Accounts payable	\$ 4,272	\$ 14,950
Unearned revenue (Note 5)	<u>393,557</u>	<u>349,586</u>
Total liabilities	<u>397,829</u>	<u>364,536</u>
Deferred inflows of resources:		
Unavailable revenue (Note 6)	<u>-</u>	<u>30,194</u>
Total deferred inflows of resources	<u>-</u>	<u>30,194</u>
Fund balance:		
Unassigned	<u>-</u>	<u>-</u>
Total fund balance	<u>-</u>	<u>-</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 397,829</u>	<u>\$ 394,730</u>

See notes to financial statements

CITY OF POWAY, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

Statement of Revenues, Expenditures and Changes in Fund Balances

**For the Fiscal Year Ended June 30, 2024
(with Comparative Information for the Prior Year)**

	TDA Article 4	
	2024	2023
Revenues:		
TDA funds	\$ 24,398	\$ 42,598
Miscellaneous revenue	-	8,731
Investment income	<u>7,370</u>	<u>3,624</u>
Total revenues	<u>31,768</u>	<u>54,953</u>
Expenditures:		
Salaries and benefits	3,775	4,123
Construction and development	<u>27,993</u>	<u>50,830</u>
Total expenditures	<u>31,768</u>	<u>54,953</u>
Change in fund balance	-	-
Fund balance at beginning of year	<u>-</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See notes to financial statements

CITY OF POWAY, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(1) General Information

The financial statements of the Transportation Development Act Article 4 Fund Activity are intended to present the financial position and changes in financial position of only those transactions attributable to the TDA Funds administered and disbursed by the City of Poway, California and do not purport to, and do not, present fairly the financial position of the City, the changes in its financial position in accordance with accounting principles generally accepted in the United States of America.

Pursuant to §99260 of the California Public Utilities Code, Article 4 monies may be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects. Funding for this program was authorized by the San Diego Association of Governments (SANDAG).

(2) Summary of Significant Accounting Policies

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, obligations, reserves and equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The TDA Funds are accounted for as Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are usually required by law or administrative regulation to be accounted for in separate funds.

Measurement Focus and Basis of Accounting

Special Revenue Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

CITY OF POWAY, CALIFORNIA

Transportation Development Act Article 4 Fund

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Recognition of revenues arising from nonexchange transactions, which include revenues from taxes, certain grants and contributions, is based on the primary characteristic from which the revenues are received by the City. For the City, funds received under TDA Article 4 possess the characteristic of a voluntary nonexchange transaction similar to a grant. Revenues under TDA Article 4 are recognized in the period when all eligibility requirements have been met.

Deferred Outflows and Inflows of Resources

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of fund balance that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure) until that time. The TDA Fund currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund balance that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The TDA Fund has only one type of this item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category, and is reported as unavailable revenue. The unavailable revenue arises when potential revenues do not meet both the measurable and availability criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the deferred inflow of resources is removed from the balance sheet and revenue is recognized.

Fund Balance

The components of the fund balances of governmental funds reflect the classifications described below.

- *Nonspendable Fund Balance* – this includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- *Restricted Fund Balance* – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed Fund Balance* – includes amounts that can be used only for the specific purposes determined by a formal action of the City Council.

CITY OF POWAY, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

- *Assigned Fund Balance* – includes amounts that are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted or committed.
- *Unassigned Fund Balance* – includes the remaining spendable amounts which are not included in one of the other classifications, plus any deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the City Council.

Use of Estimates

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as needed. City Council Policy establishes the order of use of unrestricted fund balance. Committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. The information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's prior year TDA Fund financial statements from which this selected data was derived.

(3) Cash and Investments

The City has pooled its cash and investments in order to achieve a higher return on investments while facilitating management of cash. The balance in the pool account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms. The TDA Article 4 Fund's cash and investments as of June 30, 2024 and 2023, respectively, was \$368,196 and \$364,536.

The TDA Fund's cash is deposited in the City's internal investment pool, which is reported at fair value. Interest income is allocated on the basis of average cash balances. Investment policies and associated risk factors applicable to the TDA Program are those of the City and are included in the City's basic financial statements.

CITY OF POWAY, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

Notes to Financial Statements

(Continued)

(3) Cash and Investments (Continued)

See the City's basic financial statements for disclosures related to cash and investments including those disclosures relating to interest rate risk, credit rate risk, custodial credit risk and concentration risk.

(4) Due from Other Governments

Due from other governments in the amount of \$29,633 and \$30,194 as of June 30, 2024 and 2023, respectively, represents a receivable from SANDAG for reimbursement of eligible TDA expenditures.

(5) Unearned Revenue

TDA Article 4 monies allocated to the City by SANDAG for specific capital improvements of trolley and bus facilities are considered earned when they are properly spent for the specific projects authorized. Allocations received but not used are reported as unearned revenue. The balance of unearned revenue as of June 30, 2024 and 2023, was \$393,557 and \$355,993, respectively.

(6) Unavailable Revenue

Unavailable revenue in the amount of \$0 and \$30,194 as of June 30, 2024 and 2023, respectively, for TDA Article 4 represents a receivable from SANDAG for eligible TDA expenditures which were not received within the City's availability period.

(7) Budgetary Data

The City adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America and utilizes an encumbrance system as a management control technique to assist in controlling expenditures and enforcing revenue provisions. Under this system, the current year expenditures are charged against appropriations. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any significant reconciling items.

(8) Restrictions

Funds received pursuant to the California Public Utilities Code §99260 (TDA Article 4) may only be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects.

CITY OF POWAY, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

Notes to Financial Statements

(Continued)

(9) Contingencies

Disclosures related to contingencies including those related to various legal actions, administrative proceedings, or claims in the ordinary course of operations, can be found in the audited financial statements of the City.

Supplementary Information

CITY OF POWAY, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

**Schedule of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

For the Fiscal Year Ended June 30, 2024

	Budget			Variance From Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues:				
TDA funds	\$ -	\$ -	\$ 24,398	\$ 24,398
Interest income	<u>1,500</u>	<u>1,500</u>	<u>7,370</u>	<u>5,870</u>
Total revenues	<u>1,500</u>	<u>1,500</u>	<u>31,768</u>	<u>30,268</u>
Expenditures:				
Salaries and benefits	4,000	4,000	3,775	225
Construction and development	<u>-</u>	<u>27,994</u>	<u>27,993</u>	<u>1</u>
Total expenditures	<u>-</u>	<u>27,994</u>	<u>31,768</u>	<u>226</u>
Change in fund balance	<u>\$ 1,500</u>	<u>\$ (26,494)</u>	-	<u>\$ 30,494</u>
Fund balance at beginning of year			<u>-</u>	
Fund balance at end of year			<u><u>\$ -</u></u>	

CITY OF POWAY, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

**Schedule of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

For the Fiscal Year Ended June 30, 2023

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
TDA funds	\$ -	\$ -	\$ 42,598	\$ 42,598
Miscellaneous revenue	-	-	8,731	8,731
Interest income	<u>5,150</u>	<u>5,150</u>	<u>3,624</u>	<u>(1,526)</u>
Total revenues	<u>5,150</u>	<u>5,150</u>	<u>54,953</u>	<u>49,803</u>
Expenditures:				
Salaries and benefits	4,000	4,000	4,123	(123)
Construction and development	<u>-</u>	<u>265,960</u>	<u>50,830</u>	<u>215,130</u>
Total expenditures	<u>4,000</u>	<u>269,960</u>	<u>54,953</u>	<u>215,007</u>
Change in fund balance	<u>\$ 1,150</u>	<u>\$ (264,810)</u>	-	<u>\$ 264,810</u>
Fund balance at beginning of year			<u>-</u>	
Fund balance at end of year			<u>\$ -</u>	

CITY OF POWAY, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

Schedule of Status of Funds by Project

For the Fiscal Year Ended June 30, 2024

Claim Number	Project Description	Project Status at 6/30/23	Allocations Received	Interest Earned	Qualifying Project Expenditures	City Adjustments	Project Status at 6/30/24	Notes
MNT0018	Bus Stop Improvements	\$ 305,210	\$ 30,194	\$ 7,370	\$ (38,175)	\$ 50,783	\$ 355,382	(a),(b)
MSC0008	Bus Shelter Construction	50,783	-	-	-	(50,783)	-	(a)
	Totals	<u>\$ 355,993</u>	<u>\$ 30,194</u>	<u>\$ 7,370</u>	<u>\$ (38,175)</u>	<u>\$ -</u>	<u>\$ 355,382</u>	

Notes:

- (a) Project MSC008 was completed in FY23. The remaining funds have been transferred to project MNT0018.
- (b) Qualifying project expenditures includes a payment for \$6,407 paid in August 2023 related to the fiscal year ended June 30, 2023

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Transportation Development Act (TDA) Article 4 Fund (TDA Fund) of the City of Poway, California (City), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements, and have issued our report thereon dated December 13, 2024.

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a material weaknesses.

(1) Material Misstatements Detected in Financial Statements

As a result of our audit procedures, we detected a material misstatement in the financial statements. We recorded an adjusting journal entry to correct prior year expenditures which were recorded in the current fiscal year. We recommend the City carefully review expenditures to ensure they are accurately recorded in the fiscal year in which they occur, and record journal entries for expenditures which occurred in prior periods.

Management's Response to Finding

Management acknowledges the audit finding regarding prior-year invoices paid in the current fiscal year, resulting in a material journal adjustment. This issue arose primarily due to delays in submitting invoices and providing timely information for year-end accruals. To address this, stricter internal controls will be implemented to ensure prompt submission of invoices and better alignment with year-end processes. Communication will also be enhanced to prevent future delays. Management is confident these steps will resolve the issue and ensure compliance with financial reporting standards.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the TDA Fund of the City are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including §6666 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including §6666 of Part 21 of the California Code of Regulations.

City's Response to Findings

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

Purpose of this Report

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



Irvine, California
December 13, 2024

CITY OF SAN DIEGO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Financial Statements

For the Fiscal Year Ended June 30, 2024

CITY OF SAN DIEGO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Financial Statements

For the Fiscal Year Ended June 30, 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Transportation Development Act ("TDA") Article 3 Fund ("TDA Fund") of the City of San Diego, California ("City") as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the TDA Funds as of June 30, 2024, and the change in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the TDA Fund of the City and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2024, the changes in its financial position, for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinions are not modified with respect to this matter.

Board of Directors
San Diego Association of Governments
San Diego, California

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the TDA Funds of the City. The *Schedule of Revenues, Expenditures and Change in Fund Balance – Budget and Actual* and *Schedule of Status of Funds by Project*, listed as Supplemental Information in the Table of Contents, is presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2024 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized mark.

Irvine, California
December 16, 2024

CITY OF SAN DIEGO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Balance Sheets

**June 30, 2024
(with Comparative Information for the Prior Year)**

	TDA Article 3	
	2024	2023
Assets:		
Total assets	<u>\$ -</u>	<u>\$ -</u>
Liabilities and Fund Balance		
Liabilities:		
Total liabilities	<u>-</u>	<u>-</u>
Fund balance:		
Total fund balance	<u>-</u>	<u>-</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements

CITY OF SAN DIEGO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Statement of Revenues, Expenditures and Changes in Fund Balances

**For the Fiscal Year Ended June 30, 2024
(with Comparative Information for the Prior Year)**

	TDA Article 3	
	2024	2023
Revenues:		
TDA funds	\$ -	\$ 97,534
Total revenues	-	97,534
Expenditures:		
Construction and development	-	1
Total expenditures	-	1
Change in fund balance	-	97,533
Fund balance (deficit) at beginning of year	-	(97,533)
Fund balance (deficit) at end of year	\$ -	\$ -

See notes to financial statements

CITY OF SAN DIEGO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(1) General Information

The financial statements of the Transportation Development Act Article 3 Fund Activity are intended to present the financial position and changes in financial position of only those transactions attributable to the TDA Funds administered and disbursed by the City of San Diego, California and do not purport to, and do not, present fairly the financial position of the City, the changes in its financial position in accordance with accounting principles generally accepted in the United States of America.

Pursuant to §99234 of the California Public Utilities Code, Article 3 monies may be used only for facilities provided for the exclusive use of pedestrians and bicycles, including the construction and related engineering expenditures of those facilities, the maintenance of bicycle trails (which are closed to motorized traffic) and bicycle safety education programs. Facilities that provide for the use of bicycles may include projects that serve the needs of commuting bicyclists, including, but not limited to, new trails serving major transportation corridors, secure bicycle parking at employment centers, park and ride lots, and transit terminals where other funds are unavailable. Funding for this program was authorized by the San Diego Association of Governments (SANDAG).

(2) Summary of Significant Accounting Policies

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, obligations, reserves and equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The TDA Funds are accounted for as Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are usually required by law or administrative regulation to be accounted for in separate funds.

Measurement Focus and Basis of Accounting

Special Revenue Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

CITY OF SAN DIEGO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Recognition of revenues arising from nonexchange transactions, which include revenues from taxes, certain grants and contributions, is based on the primary characteristic from which the revenues are received by the City. For the City, funds received under TDA Article 3 possess the characteristic of a voluntary nonexchange transaction similar to a grant. Revenues under TDA Article 3 are recognized in the period when all eligibility requirements have been met.

Deferred Outflows and Inflows of Resources

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of fund balance that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure) until that time. The TDA Fund currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund balance that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The TDA Fund has only one type of this item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category and is reported as unavailable revenue. The unavailable revenue arises when potential revenues do not meet both the measurable and availability criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the deferred inflow of resources is removed from the balance sheet and revenue is recognized.

Fund Equity

The components of the fund balances of governmental funds reflect the classifications described below.

- *Nonspendable Fund Balance* – this includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- *Restricted Fund Balance* – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed Fund Balance* – includes amounts that can be used only for the specific purposes determined by a formal action of the City Council.

CITY OF SAN DIEGO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

- *Assigned Fund Balance* – includes amounts that are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted or committed.
- *Unassigned Fund Balance* – includes the remaining spendable amounts which are not included in one of the other classifications, plus any deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the City Council.

Use of Estimates

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as needed. City Council Policy establishes the order of use of unrestricted fund balance. Committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. The information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's prior year TDA Fund financial statements from which this selected data was derived.

(3) Budgetary Data

The City adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America and utilizes an encumbrance system as a management control technique to assist in controlling expenditures and enforcing revenue provisions. Under this system, the current year expenditures are charged against appropriations. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any significant reconciling items.

(4) Restrictions

Funds received pursuant to the California Public Utilities Code §99234 (TDA Article 3) may only be used for facilities provided for exclusive use by bicycle and pedestrian facilities or bicycle safety programs. Funds received pursuant to the California Public Utilities Code §99260.

CITY OF SAN DIEGO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Notes to Financial Statements

(Continued)

(5) Contingencies

Disclosures related to contingencies, including those related to various legal actions, administrative proceedings, or claims in the ordinary course of operations, can be found in the audited financial statements of the City.

Supplementary Information

CITY OF SAN DIEGO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

**Statement of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

For the Fiscal Year Ended June 30, 2024

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
TDA funds	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-
Expenditures:				
Construction and development	-	-	-	-
Total expenditures	-	-	-	-
Change in fund balance	\$ -	\$ -	-	\$ -
Fund balance (deficit) at beginning of year			-	
Fund balance (deficit) at end of year			\$ -	

CITY OF SAN DIEGO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

**Statement of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

For the Fiscal Year Ended June 30, 2023

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
TDA funds	\$ 206,333	\$ 97,534	\$ 97,534	\$ -
Total revenues	206,333	97,534	97,534	-
Expenditures:				
Construction and development	108,800	1	1	-
Total expenditures	108,800	1	1	-
Change in fund balance	<u>\$ 97,533</u>	<u>\$ 97,533</u>	\$ 97,533	<u>\$ -</u>
Fund balance (deficit) at beginning of year			(97,533)	
Fund balance (deficit) at end of year			<u>\$ -</u>	

CITY OF SAN DIEGO, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

Schedule of Status of Funds by Project

For the Fiscal Year Ended June 30, 2024

<u>Claim Number</u>	<u>Project Description</u>	<u>Project Status at 6/30/23</u>	<u>Allocations Received</u>	<u>Interest Earned</u>	<u>Qualifying Project Expenditures</u>	<u>Project Status at 6/30/24</u>	<u>Notes</u>
19011008	TDA-Streamview Dr. Phase 2	\$ -	\$ -	\$ -	\$ -	\$ -	(a)

Notes

(a) The City of San Diego TDA 3 Grant was completed in FY 2023.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Transportation Development Act (TDA) Article 3 Fund (TDA Fund) of the City of San Diego, California (City), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements, and have issued our report thereon dated December 16, 2024.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Board of Directors
San Diego Association of Governments
San Diego, California

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the TDA Fund of the City are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including §6666 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including §6666 of Part 21 of the California Code of Regulations.

Purpose of this Report

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

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

Irvine, California
December 16, 2024

CITY OF SANTEE, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Financial Statements

For the Fiscal Year Ended June 30, 2024

CITY OF SANTEE, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Financial Statements

For the Fiscal Year Ended June 30, 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the Transportation Development Act ("TDA") Article 3 and Article 4 Funds ("TDA Funds") of the City of Santee, California ("City") as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the TDA Funds as of June 30, 2024, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the TDA Funds of the City and do not purport to, and do not, present fairly the financial position of the City, as of June 30, 2024, the changes in its financial position, for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The City's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the TDA Fund's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 20, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Board of Directors
San Diego Association of Governments
San Diego, California

Required Supplemental Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinions are not modified with respect to this matter.

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements of the TDA Funds of the City. The *Schedules of Revenues, Expenditures and Change in Fund Balance – Budget and Actual* and *Schedule of Status of Funds by Project*, listed as Supplemental Information in the Table of Contents, is presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2025 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Irvine, California
March 24, 2025

CITY OF SANTEE, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Balance Sheets

**June 30, 2024
(with Comparative Information for the Prior Year)**

	<u>TDA Article 3</u>		<u>TDA Article 4</u>	
	<u>2024</u>	<u>2023</u>	<u>2024</u>	<u>2023</u>
Assets:				
Cash and investments (Note 3)	\$ -	\$ -	\$ 47	\$ 5,010
Due from other governments (Note 4)	-	12,701	-	-
Interest receivable	<u>-</u>	<u>-</u>	<u>14</u>	<u>32</u>
Total assets	<u>\$ -</u>	<u>\$ 12,701</u>	<u>\$ 61</u>	<u>\$ 5,042</u>
Liabilities, Deferred Inflows of Resources, and Fund Balance:				
Liabilities:				
Due to City of Santee (Note 5)	\$ -	\$ 12,701	\$ -	\$ -
Unearned revenue (Note 6)	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,167</u>
Total liabilities	<u>-</u>	<u>12,701</u>	<u>-</u>	<u>4,167</u>
Deferred inflows of resources:				
Unavailable revenue (Note 7)	<u>-</u>	<u>12,701</u>	<u>-</u>	<u>-</u>
Total deferred inflows of resources	<u>-</u>	<u>12,701</u>	<u>-</u>	<u>-</u>
Fund balance (deficit):				
Restricted	-	-	61	875
Unassigned	<u>-</u>	<u>(12,701)</u>	<u>-</u>	<u>-</u>
Total fund balance (deficit) (Note 8)	<u>-</u>	<u>(12,701)</u>	<u>61</u>	<u>875</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ -</u>	<u>\$ 12,701</u>	<u>\$ 61</u>	<u>\$ 5,042</u>

See notes to financial statements

CITY OF SANTEE, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Statements of Revenues, Expenditures and Changes in Fund Balances

**For the Fiscal Year Ended June 30, 2024
(with Comparative Information for the Prior Year)**

	TDA Article 3		TDA Article 4	
	2024	2023	2024	2023
Revenues:				
TDA funds	\$ 211,493	\$ 5,788	\$ 4,379	\$ -
Total revenues	<u>211,493</u>	<u>5,788</u>	<u>4,379</u>	<u>-</u>
Expenditures:				
Construction and development	<u>198,792</u>	<u>8,092</u>	<u>5,193</u>	<u>-</u>
Total expenditures	<u>198,792</u>	<u>8,092</u>	<u>5,193</u>	<u>-</u>
Change in fund balance	12,701	(2,304)	(814)	-
Fund balance (deficit) at beginning of year	<u>(12,701)</u>	<u>(10,397)</u>	<u>875</u>	<u>875</u>
Fund balance (deficit) at end of year	<u>\$ -</u>	<u>\$ (12,701)</u>	<u>\$ 61</u>	<u>\$ 875</u>

See notes to financial statements

CITY OF SANTEE, CALIFORNIA

Transportation Development Act Article 3 and Article 4 Funds

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(1) General Information

The financial statements of the Transportation Development Act Article 3 and Article 4 Funds Activity are intended to present the financial position and changes in financial position of only those transactions attributable to the TDA Funds administered and disbursed by the City of Santee, California and do not purport to, and do not, present fairly the financial position of the City, the changes in its financial position in accordance with accounting principles generally accepted in the United States of America.

Pursuant to §99234 of the California Public Utilities Code, Article 3 monies may be used only for facilities provided for the exclusive use of pedestrians and bicycles, including the construction and related engineering expenditures of those facilities, the maintenance of bicycle trails (which are closed to motorized traffic) and bicycle safety education programs. Facilities that provide for the use of bicycles may include projects that serve the needs of commuting bicyclists, including, but not limited to, new trails serving major transportation corridors, secure bicycle parking at employment centers, park and ride lots, and transit terminals where other funds are unavailable. Funding for this program was authorized by the San Diego Association of Governments (SANDAG).

Pursuant to §99260 of the California Public Utilities Code, Article 4 monies may be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects. Funding for this program was authorized by the San Diego Association of Governments (SANDAG).

(2) Summary of Significant Accounting Policies

Fund Accounting

The accounts of the City are organized on the basis of funds and account groups. A fund is defined as an independent fiscal and accounting entity wherein operations of each fund are accounted for in a separate set of self-balancing accounts that record resources, related liabilities, obligations, reserves and equity segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The TDA Funds are accounted for as Special Revenue Funds. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are usually required by law or administrative regulation to be accounted for in separate funds.

Measurement Focus and Basis of Accounting

Special Revenue Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, revenues are available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred.

CITY OF SANTEE, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Recognition of revenues arising from nonexchange transactions, which include revenues from taxes, certain grants and contributions, is based on the primary characteristic from which the revenues are received by the City. For the City, funds received under TDA Article 3 and 4 possess the characteristic of a voluntary nonexchange transaction similar to a grant. Revenues under TDA Article 3 and 4 are recognized in the period when all eligibility requirements have been met.

Deferred Outflows and Inflows of Resources

In addition to assets, the balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of fund balance that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure) until that time. The TDA Fund currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund balance that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The TDA Fund has only one type of this item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category, and is reported as unavailable revenue. The unavailable revenue arises when potential revenues do not meet both the measurable and availability criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the deferred inflow of resources is removed from the balance sheet and revenue is recognized.

Fund Equity

The components of the fund balances of governmental funds reflect the classifications described below.

- *Nonspendable Fund Balance* – this includes amounts that cannot be spent because they are either (a) not in spendable form, or (b) legally or contractually required to be maintained intact.
- *Restricted Fund Balance* – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- *Committed Fund Balance* – includes amounts that can be used only for the specific purposes determined by a formal action of the City Council.

CITY OF SANTEE, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

- *Assigned Fund Balance* – includes amounts that are intended to be used by the City for specific purposes, but do not meet the criteria to be classified as restricted or committed.
- *Unassigned Fund Balance* – includes the remaining spendable amounts which are not included in one of the other classifications, plus any deficit fund balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

It is the City's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the City Council.

Use of Estimates

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as needed. City Council Policy establishes the order of use of unrestricted fund balance. Committed amounts should be reduced first, followed by the assigned amounts, and then the unassigned amounts.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. The information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's prior year TDA Fund financial statements from which this selected data was derived.

(3) Cash and Investments

The City has pooled its cash and investments in order to achieve a higher return on investments while facilitating management of cash. The balance in the pool account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms. The TDA Article 4 Fund's cash and investments as of June 30, 2024 and 2023 were \$47 and \$5,010, respectively.

The TDA Fund's cash is deposited in the City's internal investment pool, which is reported at fair value. Interest income is allocated on the basis of average cash balances. Investment policies and associated risk factors applicable to the TDA Program are those of the City and are included in the City's basic financial statements.

CITY OF SANTEE, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Notes to Financial Statements

(Continued)

(3) Cash and Investments (Continued)

See the City's basic financial statements for disclosures related to cash and investments including those disclosures relating to interest rate risk, credit rate risk, custodial credit risk and concentration risk.

(4) Due from Other Governments

Due from other governments in the amount of \$0 and \$12,701 as of June 30, 2024 and 2023, respectively, for TDA Article 3 represent receivables from SANDAG for reimbursement of eligible TDA expenditures.

(5) Due to City of Santee

Due to City of Santee in the amount of \$0 and \$12,701 as of June 30, 2024 and 2023, respectively, represents cash advanced from other funds of the City to pay for eligible TDA 3 expenditures.

(6) Unearned Revenue

TDA Article 4 monies allocated to the City by SANDAG for specific capital improvements of trolley and bus facilities are considered earned when they are properly spent for the specific projects authorized. Allocations received but not used are reported as unearned revenue. The balance of unearned revenue as of June 30, 2024 and 2023 was \$0 and \$4,167, respectively.

(7) Unavailable Revenue

Unavailable revenue in the amount of \$0 and \$12,701 as of June 30, 2024 and 2023, respectively, for TDA Article 3 represents a receivable from SANDAG for eligible TDA expenditures which were not received within the City's availability period.

(8) Deficit Fund Balance

The TDA 3 Fund reported a deficit fund balance \$12,701 as of June 30, 2023. This deficit fund balance was cured during the year ending June 30, 2024, with the receipt of TDA 3 funds as reimbursement for eligible expenditures.

(9) Budgetary Data

The City adopts an annual budget on a basis consistent with accounting principles generally accepted in the United States of America and utilizes an encumbrance system as a management control technique to assist in controlling expenditures and enforcing revenue provisions. Under this system, the current year expenditures are charged against appropriations. Accordingly, actual revenues and expenditures can be compared with related budget amounts without any significant reconciling items.

CITY OF SANTEE, CALIFORNIA

**Transportation Development Act
Article 3 and Article 4 Funds**

Notes to Financial Statements

(Continued)

(10) Restrictions

Funds received pursuant to the California Public Utilities Code §99234 (TDA Article 3) may only be used for facilities provided for exclusive use by bicycle and pedestrian facilities or bicycle safety programs. Funds received pursuant to the California Public Utilities Code §99260 (TDA Article 4) may only be used for the support of public transportation systems, aid to public transportation research and demonstration projects, and contributions for the construction of grade separation projects.

(11) Contingencies

Disclosures related to contingencies including those related to various legal actions, administrative proceedings, or claims in the ordinary course of operations, can be found in the audited financial statements of the City.

Supplemental Information

CITY OF SANTEE, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

**Schedule of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

For the Fiscal Year Ended June 30, 2024

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
TDA funds	\$ 198,790	\$ 198,790	\$ 211,493	\$ 12,703
Total revenues	198,790	198,790	211,493	12,703
Expenditures:				
Construction and development	198,790	198,790	198,792	(2)
Total expenditures	198,790	198,790	198,792	(2)
Change in fund balance	\$ -	\$ -	12,701	\$ 12,701
Fund balance (deficit) at beginning of year			(12,701)	
Fund balance (deficit) at end of year			\$ -	

CITY OF SANTEE, CALIFORNIA

**Transportation Development Act
Article 3 Fund**

**Schedule of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

For the Fiscal Year Ended June 30, 2023

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
TDA funds	<u>\$ 225,661</u>	<u>\$ 225,661</u>	<u>\$ 5,788</u>	<u>\$ (219,873)</u>
Total revenues	<u>225,661</u>	<u>225,661</u>	<u>5,788</u>	<u>(219,873)</u>
Expenditures:				
Construction and development	<u>214,805</u>	<u>214,805</u>	<u>8,092</u>	<u>206,713</u>
Total expenditures	<u>214,805</u>	<u>214,805</u>	<u>8,092</u>	<u>206,713</u>
Change in fund balance	<u>\$ 10,856</u>	<u>\$ 10,856</u>	(2,304)	<u>\$ (13,160)</u>
Fund balance (deficit) at beginning of year			<u>(10,397)</u>	
Fund balance (deficit) at end of year			<u>\$ (12,701)</u>	

CITY OF SANTEE, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

**Schedule of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

For the Fiscal Year Ended June 30, 2024

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
TDA funds	\$ 4,240	\$ 4,240	\$ 4,379	\$ 139
Total revenues	4,240	4,240	4,379	139
Expenditures:				
Construction and development	5,193	5,193	5,193	-
Total expenditures	5,193	5,193	5,193	-
Change in fund balance	<u>\$ (953)</u>	<u>\$ (953)</u>	(814)	<u>\$ 139</u>
Fund balance (deficit) at beginning of year			<u>875</u>	
Fund balance (deficit) at end of year			<u>\$ 61</u>	

CITY OF SANTEE, CALIFORNIA

**Transportation Development Act
Article 4 Fund**

**Schedule of Revenues, Expenditures and
and Change in Fund Balance - Budget and Actual**

For the Fiscal Year Ended June 30, 2023

	Budget		Actual	Variance From Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues:				
TDA funds	\$ 4,240	\$ 4,240	\$ -	\$ (4,240)
Total revenues	4,240	4,240	-	(4,240)
Expenditures:				
Construction and development	4,240	4,240	-	4,240
Total expenditures	4,240	4,240	-	4,240
Change in fund balance	<u>\$ -</u>	<u>\$ -</u>	-	<u>\$ -</u>
Fund balance (deficit) at beginning of year			<u>875</u>	
Fund balance (deficit) at end of year			<u>\$ 875</u>	

CITY OF SANTEE, CALIFORNIA
Transportation Development Act
Article 3 and Article 4 Funds
Schedule of Status of Funds by Project
For the Fiscal Year Ended June 30, 2024

Claim Number	Project Description	Project Status at 6/30/23	Allocations Received	Interest Earned	Qualifying Project Expenditures	Project Status at 6/30/24	Notes
Article 3:							
19011009	Prospect Ave & Mesa Rd Intersection Imp	\$ (12,701)	\$ 211,493	\$ -	\$ (198,792)	\$ -	
Article 4:							
2012-40	Clock Tower Upgrades	4,240	953	-	(5,193)	-	
	Totals	\$ (8,461)	\$ 212,446	\$ -	\$ (203,985)	\$ -	

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Transportation Development Act (TDA) Article 3 and Article 4 Funds (TDA Funds) of the City of Santee, California (City), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the City's TDA Fund financial statements, and have issued our report thereon dated March 24, 2025.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Board of Directors
San Diego Association of Governments
San Diego, California

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the TDA Funds of the City are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including §6666 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including §6666 of Part 21 of the California Code of Regulations.

Purpose of this Report

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

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

Irvine, California
March 24, 2025

**FULL ACCESS & COORDINATED
TRANSPORTATION, INC.**

**Transportation Development Act
Article 4.5 Fund**

Financial Statements

For the Fiscal Year Ended June 30, 2024

**FULL ACCESS & COORDINATED
TRANSPORTATION, INC.**

**Transportation Development Act
Article 4.5 Fund**

Financial Statements

For the Fiscal Year Ended June 30, 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Transportation Development Act ("TDA") Article 4.5 Funds ("TDA Fund") of the Consolidated Transportation Services Agency ("CTSA") Program of Full Access & Coordinated Transportation, Inc. ("FACT"), which comprise the statements of financial position as of and for the year ended June 30, 2024, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise FACT's TDA Fund financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the TDA Fund as of June 30, 2024, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of FACT and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the TDA Fund of FACT and do not purport to, and do not, present fairly the financial position of FACT, as of June 30, 2024, the changes in its financial position, or its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

FACT's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant

to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about FACT's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FACT's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about FACT's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the TDA Fund's financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 23, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Board of Directors
San Diego Association of Governments
San Diego, California

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2024 on our consideration of FACT's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering FACT's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Davis Lane".

Irvine, California
December 19, 2024

FULL ACCESS & COORDINATED TRANSPORTATION, INC.

**Transportation Development Act
Article 4.5 Fund**

Statement of Financial Position

**June 30, 2024
(with Comparative Information for the Prior Year)**

	<u>2024</u>	<u>2023</u>
Assets:		
Cash and cash equivalents (Note 3)	<u>\$ 263,253</u>	<u>\$ 272,993</u>
Total assets	<u>\$ 263,253</u>	<u>\$ 272,993</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 23,893	\$ 8,220
Net assets:		
With donor restrictions	<u>239,360</u>	<u>264,773</u>
Total liabilities and net assets	<u>\$ 263,253</u>	<u>\$ 272,993</u>

See accompanying notes to financial statements

FULL ACCESS & COORDINATED TRANSPORTATION, INC.

**Transportation Development Act
Article 4.5 Fund**

Statements of Activities and Changes in Net Assets

**For the Fiscal Year Ended June 30, 2024
(with Comparative Information for the Prior Year)**

	<u>2024</u>	<u>2023</u>
Changes in Net Assets without Donor Restrictions		
Net assets released from donor restriction	\$ 220,432	\$ 126,563
Expenses		
Program expenses (Note 5)	<u>220,432</u>	<u>126,563</u>
Change in Unrestricted Net Assets	<u>-</u>	<u>-</u>
Changes in Net Assets with Donor Restrictions		
TDA Article 4.5 allocation	195,019	188,798
Restrictions satisfied by payments	<u>(220,432)</u>	<u>(126,563)</u>
Change in Net Assets with donor restrictions	<u>(25,413)</u>	<u>62,235</u>
Change in Net Assets	<u>(25,413)</u>	<u>62,235</u>
Net Assets at beginning of year	<u>264,773</u>	<u>202,538</u>
Net Assets at end of year	<u>\$ 239,360</u>	<u>\$ 264,773</u>

See accompanying notes to financial statements

FULL ACCESS & COORDINATED TRANSPORTATION, INC.

**Transportation Development Act
Article 4.5 Fund**

Statement of Cash Flows

**For the Fiscal Year Ended June 30, 2024
(with Comparative Information for the Prior Year)**

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities:		
Change in net assets	\$ (25,413)	\$ 62,235
Adjustments to reconcile change in net assets to net cash from operating activities		
Due from other government	-	51,015
Accounts payable	<u>15,673</u>	<u>(1,134)</u>
Net cash used in operating activities	(9,740)	112,116
Cash at beginning of year	\$ <u>272,993</u>	\$ <u>160,877</u>
Cash at end of year	\$ <u><u>263,253</u></u>	\$ <u><u>272,993</u></u>

There were no noncash capital, investing and financing activities for fiscal year ending June 30, 2024 and 2023.

See accompanying notes to financial statements

**FULL ACCESS & COORDINATED
TRANSPORTATION, INC.**

**Transportation Development Act
Article 4.5 Fund**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(1) General Information

The financial statements are intended to present the financial position and changes in financial position for the Transportation Development Act ("TDA") Article 4.5 Fund ("TDA Fund") of the Consolidated Transportation Services Agency ("CTSA") program of Full Access & Coordinated Transportation, Inc. ("FACT") only. The financial statements do not purport to, and do not, present fairly the financial position of FACT, the changes in its financial position in accordance with accounting principles generally accepted in the United States of America.

FACT, a California not-for-profit organization, was organized and incorporated in February 2006 under the Nonprofit Public Benefit Corporation Law, for the purpose of coordinating transportation services in the North San Diego County area. FACT is recognized by both the Internal Revenue Service (IRS) and the California Franchise Tax Board as an organization exempt from income taxes. FACT is governed by a Board of Directors of nine members.

Pursuant to §99275 of the California Public Utilities Code, Article 4.5 monies may be used only for community transit services, including such services for those, such as the disabled, who cannot use conventional transit services. Community transit services is defined as transportation services which link intracommunity origins and destinations.

(2) Summary of Significant Accounting Policies

Fund Accounting

CTSA is a state-mandated program to coordinate social service agency transportation programs and is funded by Article 4.5 of the TDA. The financial statements of the TDA Article 4.5 funding for the CTSA Program of FACT are intended to present the financial position and changes in financial position of only those transactions attributable to TDA funds distributed by the San Diego Association of Governments (SANDAG). The financial statements of the CTSA Program are included in the financial statements of FACT.

The financial statements of the CTSA Program have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to not-for-profit organizations. The Financial Accounting Standards Board (FASB) is the accepted standards setting body for establishing accounting and financial reporting principles.

Measurement Focus and Basis of Accounting

The financial activities of the CTSA Program are maintained on the accrual basis of accounting. Revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which they are incurred.

**FULL ACCESS & COORDINATED
TRANSPORTATION, INC.**

**Transportation Development Act
Article 4.5 Fund**

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Revenue Recognition

The timing of revenue recognition for grants received from governments by not-for-profit organizations is dependent upon whether the grant is received in the form of an exchange transaction or a contribution. TDA funds received from SANDAG are classified as contributions. TDA funds represent contributions if the resource provider receives no value in exchange for the assets transferred, or if the value received is incidental to the potential benefit to be provided by using the assets. Contributions are recognized as revenues once they are available and unconditional.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Net assets with donor restrictions consist of funds received pursuant to the provisions of TDA Article 4.5, which may only be used for technical assistance for coordination of transportation services for health and human services.

Income Taxes

FACT has been recognized by the IRS as a not-for-profit corporation as described in §501(c)(3) of the IRC and is exempt from federal and state income taxes on related income pursuant to §501(a) of the IRC and California Revenue and Taxation Code §23701d.

**FULL ACCESS & COORDINATED
TRANSPORTATION, INC.**

**Transportation Development Act
Article 4.5 Fund**

Notes to Financial Statements

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. The information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with FACT's prior year TDA Fund financial statements from which this selected data was derived.

(3) Cash and Cash Equivalents

The CTSA Program's cash is pooled with FACT and is accounted for in a business checking account which is Federal Depository Insurance Commission (FDIC) insured. As of June 30, 2024 and 2023, the CTSA Program's total cash balance was \$263,253 and \$272,993, respectively. For the purpose of the Statement of Cash Flows, FACT considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

(4) Liquidity and Availability of Funds

Financial assets available for expenditure within one year of the balance sheet date, are estimated to be the following:

	<u>2024</u>	<u>2023</u>
Cash and cash equivalents	\$263,253	\$272,993
Total assets available	\$263,253	\$272,993

FACT does not have a formal liquidity management policy in place.

(5) Functional Expenses

Functional expenses for FACT include only program expenses of the TDA fund, as included on the Statement of Activities and Changes in Net Assets.

**FULL ACCESS & COORDINATED
TRANSPORTATION, INC.**

**Transportation Development Act
Article 4.5 Fund**

Notes to Financial Statements

(Continued)

(5) Functional Expenses (Continued)

Natural expense classification for the years ended June 30, are as follows:

	<u>2024</u>	<u>2023</u>
Payroll services	\$ 45,235	\$ 6,555
Contracted services	3,179	8,226
Operations	146,263	85,126
Travel and meetings	19,317	20,444
Other	<u>6,438</u>	<u>6,212</u>
Total program expenses	<u>\$220,432</u>	<u>\$126,563</u>

(6) Subsequent Events

Management has performed an analysis of the activities and transactions subsequent to June 30, 2024 to determine the need for any adjustments to and/or disclosures within the consolidated financial statements. Management has performed their analysis through December 19, 2024, the date the financial statements were available to be issued.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Transportation Development Act ("TDA") Article 4.5 Fund ("TDA Fund") of Full Access & Coordinated Transportation, Inc. ("FACT"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise FACT's TDA Fund financial statements, and have issued our report thereon dated December 19, 2024.

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency to be a material weaknesses.

(1) Material Misstatements Detected in Financial Statements

As a result of our audit procedures, we detected material misstatements in the financial statements. We recorded an adjusting journal entry to correct a missposting of accounts payable from a receivable to a payable and to correct beginning equity. We recommend FACT carefully review account balances and journal entries to ensure they are accurately recorded.

Management's Respond to Finding

Management is putting in controls to make sure the accounts receivable and accounts payable entries are appropriately categorized before submitting the financials for audit.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the TDA Fund of FACT are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including §6667 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including §6667 of Part 21 of the California Code of Regulations.

City's Response to Findings

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

Purpose of this Report

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



Irvine, California
December 19, 2024

**SAN DIEGO ASSOCIATION OF GOVERNMENTS
SAN DIEGO, CALIFORNIA**

**Report on Agreed Upon Procedures
Applied to the Transportation Development Act
Year Ended June 30, 2024**

**INDEPENDENT AUDITOR'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

Board of Directors
San Diego Association of Governments
San Diego, California

We have performed the procedures enumerated below, in reviewing the San Diego Association of Governments' (SANDAG's) compliance with applicable laws, rules, and regulations pursuant to Articles 3 and 4 of the Transportation Development Act (TDA), and California Government Code §8879.50 for the year ended June 30, 2024. SANDAG's management is responsible for maintenance of the accounting records and for the compliance with the applicable laws, rules, and regulations pursuant to Articles 3 and 4 of the TDA and California Government Code §8879.50.

SANDAG has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of evaluating compliance with applicable laws, rules, and regulations pursuant to Articles 3 and 4 of the Transportation Development Act (TDA), and California Government Code §8879.50 for the year ended June 30, 2024. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

Our procedures and the results of those procedures were as follows:

1. We read Article 3, §99233.2 and §99233.5, Article 4 §99262 and Senate Bill (SB) 1703 to determine whether, as the Regional Transportation Planning Agency (RTPA) and the Consolidated Agency for planning and programming functions of the San Diego Metropolitan Transit System (MTS) and the North County Transit District (NCTD), SANDAG's functions are consistent with functions required for funding eligibility. Specifically, we determined that SANDAG's organizational structure meets the following criteria:
 - a. Article 3- 29532 – SANDAG is a council of governments, and an election has not been made pursuant to Section 29536 to form a local transportation commission.
 - b. PUC Section 99233.5 – SANDAG carries out administrative and planning powers, duties, and functions and construction and acquisition programs in accordance with Article 4 (commencing with Section 132353) of Chapter 3 of Division 12.7.
 - c. PUC Section 99262 - Claims for public transportation systems may include claims for money for all purposes necessary and convenient to the development and operation of the system, including planning and contributions to the transportation planning process, acquisition of real property, construction of facilities and buildings, purchase and replacement of vehicles (including those usable by disabled persons), and system operation, maintenance, and repair, payment for any of which purposes may take the form of direct expenditures or payment of principal and interest on equipment trust certificates, bonded or

other indebtedness, or any amounts in accomplishment of a defeasance of any outstanding revenue bond indenture.

Results: No exceptions were noted as a result of our procedures.

2. We obtained from SANDAG the Schedule of Status of Funds by Project ("Schedule") for the TDA program for the year ended June 30, 2024, and a listing of underlying invoices, and agreed the listing of invoices to the Schedule.

Results: No exceptions were noted as a result of our procedures. See Schedule A for the Schedule of Status of Funds by Project.

3. We judgmentally selected a sample of expenditures representing at least 25% of funds spent from the listing of expenditures provided and determined whether the expenditures per the selected invoices were eligible costs as per Article 3 (§99233.2 and §99233.5), Article 4 (§99262), and California Government Code §8879.50 for the year ended June 30, 2024.

Results: No exceptions were noted as a result of our procedures.

4. We determined that SANDAG, as a TDA claimant, submitted a fiscal and compliance audit report within 180 days after the end of the fiscal year or within the extension period (if applicable) of up to an additional 90 days, per §6664 of part 21 of the California Code of Regulations.

Results: No exceptions were noted as a result of our procedures.

We were engaged by SANDAG to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on SANDAG's accounting records. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of SANDAG and is not intended to be and should not be used by anyone other than those specified parties.



Irvine, California
March 24, 2025

SAN DIEGO ASSOCIATION OF GOVERNMENTS

TRANSPORTATION DEVELOPMENT ACT

Schedule of Findings and Recommendations

Year Ended June 30, 2024

A. Current Year Findings and Recommendations

No findings or recommendations were noted for the year ended June 30, 2024.

B. Prior Year Findings and Recommendations

No findings or recommendations were noted for the year ended June 30, 2023.

SCHEDULE A

SAN DIEGO ASSOCIATION OF GOVERNMENTS

Transportation Development Act
Schedule of Status of Funds by Project
Fiscal Year Ended June 30, 2024

Claim Number	Project Description	Project Status at 6/30/23	Allocations Received	Interest Received	Qualifying Project Expenditures	Agency Adjustments	Project Status at 6/30/24	Notes
Transportation Development Act:								
Administration:								
24051000	Administration	\$ -	\$ 566,483	\$ -	\$ (566,483)	\$ -	\$ -	
	Total Administration	-	566,483	-	(566,483)	-	-	
Article 3:								
16011000	North Park/Mid-City Bikeways:Robinson Bikeway	452,281	-	-	(360,845)	-	91,436	
24011000	Pershing Drive Bikeway	-	2,979,972	-	(2,979,972)	-	-	
	Total Article 3	452,281	2,979,972	-	(3,340,817)	-	91,436	
Article 4:								
Capital Transfer from MTS:								
250/2002	Article 4 (Transfer from MTS)	258,439	-	-	-	-	258,439	
253/2003	Article 4 (Transfer from MTS)	11,993	-	-	-	-	11,993	
256/2004	Article 4 (Transfer from MTS)	52,509	-	-	-	-	52,509	
06031005	Article 4 (Transfer from MTS)	50,503	-	-	-	-	50,503	
08031005	Article 4 (Transfer from MTS)	5,000	-	-	-	-	5,000	
09031004	Article 4 (Transfer from MTS)	19,972	-	-	-	-	19,972	
10031004	Article 4 (Transfer from MTS)	10,548	-	-	(10,548)	-	-	
17031004	Article 4 (Transfer from MTS)	92,948	-	-	-	-	92,948	
18031004	Article 4 (Transfer from MTS)	133,364	-	-	(3,273)	-	130,091	
21031004	Article 4 (Transfer from MTS)	236,476	-	-	(60,452)	-	176,024	
22031004	Article 4 (Transfer from MTS)	355,453	-	-	(67,815)	-	287,638	
24031004	Article 4 (Transfer from MTS)	-	278,570	-	(278,570)	-	-	
	Total Capital Transfer from MTS	1,227,205	278,570	-	(420,658)	-	1,085,117	
	Subtotal Article 4	1,227,205	278,570	-	(420,658)	-	1,085,117	

(Continued)

SCHEDULE A

SAN DIEGO ASSOCIATION OF GOVERNMENTS

Transportation Development Act
Schedule of Status of Funds by Project
Fiscal Year Ended June 30, 2024
(Continued)

Claim Number	Project Description	Project Status at 6/30/23	Allocations Received	Interest Received	Qualifying Project Expenditures	Agency Adjustments	Project Status at 6/30/24	Notes
	Balance carried forward	\$ 1,227,205	\$ 278,570	\$ -	\$ (420,658)	\$ -	\$ 1,085,117	
	Transfer from MTS/NCTD:							
261/2005	Article 4 (Transfer from MTS/NCTD)	105,661	-	-	-	-	105,661	
	Total Transfer from MTS/NCTD	105,661	-	-	-	-	105,661	
	Capital Transfer from NCTD:							
14041002	Article 4 (Transfer from NCTD)	176,872	-	-	-	-	176,872	
15041002	Article 4 (Transfer from NCTD)	25,773	-	-	-	-	25,773	
19041002	Article 4 (Transfer from NCTD)	288,428	-	-	(115,649)	-	172,779	
	Total Capital Transfer from NCTD	491,073	-	-	(115,649)	-	375,424	
	Administrative/Planning Transfers:							
24031004	Article 4 (Transfer from MTS)	-	2,651,202	-	(2,651,202)	-	-	
24041002	Article 4 (Transfer from NCTD)	-	898,040	-	(898,040)	-	-	
	Total Administrative/Planning Transfers	-	3,549,242	-	(3,549,242)	-	-	
	Total Article 4	1,823,939	3,827,812	-	(4,085,549)	-	1,566,202	
	SANDAG 3% Planning:							
20051001	SANDAG 3% Planning	1,849,793	-	-	(578,984)	-	1,270,809	
21051001	SANDAG 3% Planning	4,456,514	-	-	-	-	4,456,514	
22051001	SANDAG 3% Planning	5,665,429	-	-	-	-	5,665,429	
23051001	SANDAG 3% Planning	5,958,273	-	-	-	-	5,958,273	
24051001	SANDAG 3% Planning	-	6,154,596	-	-	-	6,154,596	
	Total SANDAG 3% Planning	17,930,009	6,154,596	-	(578,984)	-	23,505,621	
	Total Transportation Development Act	\$ 20,206,229	\$ 13,528,863	\$ -	\$ (8,571,833)	\$ -	\$ 25,163,259	

Local Transportation Fund
A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
By the County of San Diego
Financial Statements
For the Fiscal Year Ended June 30, 2024

Local Transportation Fund
A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
By the County of San Diego

Financial Statements

For the Fiscal Year Ended June 30, 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Local Transportation Fund (LTF) – A Fiduciary Fund Held in a Trustee Capacity as an Investment Trust Fund by the County of San Diego ("County") as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the LTF financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the LTF of the County, as of June 30, 2024, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the County and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the LTF of the County and do not purport to, and do not, present fairly the financial position of the County, as of June 30, 2024, the changes in its financial position, for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The County's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the LTF 2023 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 21, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Board of Directors
San Diego Association of Governments
San Diego, California

Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements of LTF of the County. The *Schedule of Disbursements by Purpose* and *Schedule of Claims and Disbursements by Purpose*, listed as Supplemental Information in the Table of Contents, is presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2024 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

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

Irvine, California
December 19, 2024

Local Transportation Fund
A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
by the County of San Diego

Statement of Fiduciary Net Position

June 30, 2024
(with Comparative Information for the Prior Year)

	<u>2024</u>	<u>2023</u>
<u>Assets</u>		
Cash and investments	\$ 21,632,931	\$ 24,991,012
Sales tax receivable	35,639,279	35,008,349
Interest receivable	<u>159,383</u>	<u>118,369</u>
Total assets	<u>\$ 57,431,593</u>	<u>\$ 60,117,730</u>
<u>Net Position</u>		
Held in trust for Local Transportation Fund claimants	<u>\$ 57,431,593</u>	<u>\$ 60,117,730</u>
Total net position	<u>\$ 57,431,593</u>	<u>\$ 60,117,730</u>

See notes to financial statements

Local Transportation Fund
A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
by the County of San Diego

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended June 30, 2024
(with Comparative Information for the Prior Year)

	<u>2024</u>	<u>2023</u>
<u>Additions</u>		
Sales tax	\$ 202,412,486	\$ 202,421,834
Interest	<u>250,713</u>	<u>384,300</u>
Total Additions	<u>202,663,199</u>	<u>202,806,134</u>
 <u>Deductions</u>		
Administration and planning	6,771,079	6,569,236
Pedestrian and bicycle	3,559,613	6,414,578
Public transportation	183,836,477	178,145,163
Community transit service	9,750,932	9,439,890
Multi-modal	<u>1,431,235</u>	<u>1,212,749</u>
Total Deductions	<u>205,349,336</u>	<u>201,781,616</u>
 Change in net position	(2,686,137)	1,024,518
Net position at the beginning of the year	<u>60,117,730</u>	<u>59,093,212</u>
Net position at the end of the year	<u>\$ 57,431,593</u>	<u>\$ 60,117,730</u>

See notes to financial statements .

Local Transportation Fund
A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
By the County of San Diego

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(1) General Information

The Local Transportation Fund (LTF) – A Fiduciary Fund Held in a Trustee Capacity as an Investment Trust Fund by the County of San Diego (County) was created pursuant to §29530, Article 11 of Chapter 2 of Division 3 of Title 3 of the Government Code. As such, the LTF receives monies allocated pursuant to the Transportation Development Act (TDA). The funds are disbursed in accordance with allocation instructions received from the San Diego Association of Governments (SANDAG). The County acts as the trustee of the LTF.

Reporting Entity

Only the accounts of the LTF are included in these financial statements. Consequently, these financial statements do not represent the financial position, change in financial position or cash flows of the County. The accounts of the LTF have been presented in the County's Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position within the Investment Trust Funds.

(2) Summary of Significant Accounting Policies

The accounting policies of the LTF are in conformity with generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Basis of Accounting

The LTF financial statements include the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position and are reported using the economic resources measurement focus and the accrual basis of accounting.

Net Position Policy

When both restricted and unrestricted resources are available for use, the policy is to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial

Local Transportation Fund
A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
By the County of San Diego

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(Continued)

statements. The information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the County's prior year LTF financial statements from which this selected data was derived.

(3) Cash and Investments

The County has pooled its cash and investments. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms. The LTF's cash and investments as of June 30, 2024 were \$21,632,931.

The LTF's cash is held in the County's external investment pool, which is reported at fair value. Interest income is allocated on the basis of average daily cash balances. Investment policies and associated risk factors applicable to the LTF are those of the County and are included in the County's basic financial statements.

Governmental Accounting Standards Board Statement No. 72 (GASB 72) Fair Value Measurement and Application establishes a hierarchy of inputs to valuation techniques used to measure fair value and requires disclosures to be made about investment fair value measurements, the level of fair value hierarchy, and valuation techniques.

According to GASB 72, an investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash.

Investments not measured at fair value continue to include, for example, money market mutual funds which are valued at net asset value - \$1 dollar per share (amortized cost).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement.

The LTF categorizes its fair value measurements within the fair value hierarchy established by GASB 72. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and
- Level 3: Investments reflect prices based upon unobservable sources.

Local Transportation Fund
A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
By the County of San Diego

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(Continued)

(3) Cash and Investments (Continued)

Deposits and withdrawals in the County's cash and investment pool are made on the basis of \$1 and not fair value. Accordingly, the LTF's proportionate share of investments in the pool at June 30, 2024, of \$21,632,931 is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input on the GASB Statement No. 72 fair value hierarchy.

SUPPLEMENTAL INFORMATION

Local Transportation Fund
A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
by the County of San Diego

Schedule of Disbursements by Purpose

For the Fiscal Year Ended June 30, 2024

Agency	Administration and Planning	Article 3 Pedestrian and Bicycle	Article 4 Public Transportation	Article 4.5 Community Transit Services	Article 8 Multi-Modal	Total
City of Carlsbad	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
City of Chula Vista	-	-	-	-	-	-
City of Coronado	-	-	-	-	-	-
City of Del Mar	-	-	-	-	-	-
City of El Cajon	-	67,740	-	-	-	67,740
City of Encinitas	-	-	-	-	-	-
City of Escondido	-	300,408	-	-	-	300,408
City of Imperial Beach	-	-	-	-	-	-
City of La Mesa	-	-	-	-	-	-
City of Lemon Grove	-	-	-	-	-	-
City of National City	-	-	-	-	-	-
City of Oceanside	-	-	-	-	-	-
City of Poway	-	-	-	-	-	-
City of San Diego	-	-	-	-	-	-
City of San Marcos	-	-	-	-	-	-
City of Santee	-	211,493	-	-	-	211,493
City of Solana Beach	-	-	-	-	-	-
City of Vista	-	-	-	-	-	-
Consolidated Transportation Service Agency (CTSA)	-	-	-	195,019	-	195,019
County of San Diego (COSD)	50,000	-	-	-	-	50,000
Metropolitan Transit System (MTS)	-	-	127,292,404	6,790,544	1,431,235	135,514,183
North County Transit District (NCTD)	-	-	52,716,261	2,765,369	-	55,481,630
San Diego Association of Governments (SANDAG)	6,721,079	2,979,972	3,827,812	-	-	13,528,863
Total Disbursements	\$ 6,771,079	\$ 3,559,613	\$ 183,836,477	\$ 9,750,932	\$ 1,431,235	\$ 205,349,336

Local Transportation Fund
A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
by the County of San Diego

Schedule of Claims and Disbursements by Purpose

For the Fiscal Year Ended June 30, 2024

Claimant	Claim Year	Claim No.	Allocation Balance 6/30/2023	Current Year Claims	Adjustments Authorized	Disbursements	Allocation Balance 6/30/2024
Administration:							
County of San Diego	2024	24021000	\$ -	\$ 50,000	\$ -	\$ 50,000	\$ -
San Diego Association of Governments	2024	24051000	-	566,483	-	566,483	-
San Diego Association of Governments	2024	24051001	-	6,154,596	-	6,154,596	-
Total Administration			\$ -	\$ 6,771,079	\$ -	\$ 6,771,079	\$ -
Article 3:							
Various	2008	8011012	\$ 151,221	\$ -	\$ -	\$ -	\$ 151,221
San Diego Association Of Governments	2010	10011012	50,000	-	-	-	50,000
City Of Escondido	2016	16011005	300,408	-	-	300,408	-
City Of Santee	2016	16011007	43	-	-	-	43
City Of Chula Vista	2017	17011001	36,383	-	-	-	36,383
City Of Lemon Grove	2017	17011002	20,744	-	-	-	20,744
City Of El Cajon	2019	19011001	67,740	-	-	67,740	-
City Of El Cajon	2019	19011002	33,796	-	-	-	33,796
City Of La Mesa	2019	19011003	40,462	-	-	-	40,462
City Of La Mesa	2019	19011004	-	-	-	-	-
City Of National City	2019	19011005	-	-	-	-	-
City Of National City	2019	19011006	-	-	-	-	-
City Of Oceanside	2019	19011007	892	-	-	-	892
City Of San Diego	2019	19011008	108,799	-	-	-	108,799
City Of Santee	2019	19011009	211,493	-	-	211,493	-
City Of Solana Beach	2019	19011010	18,944	-	-	-	18,944
San Diego Association Of Governments	2024	24011000	-	2,979,972	-	2,979,972	-
Total Article 3			\$ 1,040,925	\$ 2,979,972	\$ -	\$ 3,559,613	\$ 461,284

Local Transportation Fund
A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
by the County of San Diego

Schedule of Claims and Disbursements by Purpose

For the Fiscal Year Ended June 30, 2024

(Continued)

Claimant	Claim Year	Claim No.	Allocation Balance 6/30/2023	Current Year Claims	Adjustments Authorized	Disbursements	Allocation Balance 6/30/2024
Article 4:							
Metropolitan Transit System	2003	253	\$ 36,639	\$ -	\$ -	\$ -	\$ 36,639
Metropolitan Transit System	2024	24031000	-	127,292,404	-	127,292,404	-
North County Transit District	2024	24041000	-	52,716,261	-	52,716,261	-
San Diego Association of Governments	2024	24031004	-	2,929,772	-	2,929,772	-
San Diego Association of Governments	2024	24041002	-	898,040	-	898,040	-
Total Article 4			<u>\$ 36,639</u>	<u>\$ 183,836,477</u>	<u>\$ -</u>	<u>\$ 183,836,477</u>	<u>\$ 36,639</u>
Article 4.5:							
Metropolitan Transit System	2024	24031001	\$ -	\$ 6,790,544	\$ -	\$ 6,790,544	\$ -
North County Transit District	2024	24041001	-	2,765,369	-	2,765,369	-
Consolidated Transportation Service Agency	2024	24061000	-	195,019	-	195,019	-
Total Article 4.5			<u>\$ -</u>	<u>\$ 9,750,932</u>	<u>\$ -</u>	<u>\$ 9,750,932</u>	<u>\$ -</u>
Article 8:							
Metropolitan Transit System	2024	24031002	\$ -	\$ 1,107,922	\$ -	\$ 1,107,922	\$ -
Metropolitan Transit System	2024	24031003	-	323,313	-	323,313	-
Total Article 8			<u>\$ -</u>	<u>\$ 1,431,235</u>	<u>\$ -</u>	<u>\$ 1,431,235</u>	<u>\$ -</u>
Total Local Transportation Fund			<u>\$ 1,077,564</u>	<u>\$ 204,769,695</u>	<u>\$ -</u>	<u>\$ 205,349,336</u>	<u>\$ 497,923</u>

Local Transportation Fund
A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
By the County of San Diego

Note to Supplemental Information

For the Fiscal Year Ended June 30, 2024

(1) Supplemental Information

The balance of net position at June 30, 2024, in the amount of \$57,431,593 as indicated in the Statement of Fiduciary Net Position differs from the allocation balance at June 30, 2024, in the amount of \$497,923 as indicated in the Schedule of Claims and Disbursements by Purpose (Schedule) by \$56,933,670. Annual "Current Year Claims" reflected in the Schedule are derived based on the previous year's unallocated net position and the proposed use of estimated sales tax revenues to be derived for that fiscal year. The balance of any remaining "Current Year Claims" (plus or minus authorized adjustments and actual disbursements) plus any remaining allocation balances are carried forward to become the next fiscal year's beginning allocation balance on the Schedule. However, in the Statement of Changes in Fiduciary Net Position, the Net Position balance is only affected by actual additions (sales tax derived and interest earned) and deductions (disbursements) incurred by the fund during the year.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Local Transportation Fund (LTF) – A Fiduciary Fund Held in a Trustee Capacity as an Investment Trust Fund by the County of San Diego ("County") for Transportation Development Act (TDA) funds maintained and disbursed by the County as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the County's LTF financial statements, and have issued our report thereon dated December 19, 2024.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.


Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the County's LTF are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including §6661 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including §6661 of Part 21 of the California Code of Regulations.

Purpose of this Report

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

A handwritten signature in blue ink that reads "Davis Fan".

Irvine, California
December 19, 2024

State Transit Assistance Fund
A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
By the County of San Diego
Financial Statements
For the Fiscal Year Ended June 30, 2024

State Transit Assistance Fund
A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
By the County of San Diego

Financial Statements

For the Fiscal Year Ended June 30, 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the State Transit Assistance Fund (STAF) – A Fiduciary Fund Held in a Trustee Capacity as an Investment Trust Fund by the County of San Diego ("County") as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the STAF financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the STAF of the County, as of June 30, 2024, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the County and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the STAF of the County and do not purport to, and do not, present fairly the financial position of the County, as of June 30, 2024, the changes in its financial position, for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The County's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the financial statements for STAF for the year ended June 30, 2023, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 21, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Board of Directors
San Diego Association of Governments
San Diego, California

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2024 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

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

Irvine, California
December 19, 2024

State Transit Assistance Fund
A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
by the County of San Diego

Statement of Fiduciary Net Position

June 30, 2024
(with Comparative Information for the Prior Year)

	<u>2024</u>	<u>2023</u>
<u>Assets</u>		
Cash and Investments	\$ 116,906	\$ 72,920
Interest Receivable	6,663	6,211
Sales Tax Receivable	<u>4,266,481</u>	<u>4,342,085</u>
Total Assets	<u>4,390,050</u>	<u>4,421,216</u>
<u>Liabilities</u>		
Accounts Payable - North County Transit District	<u>4,266,481</u>	<u>4,342,085</u>
Total Liabilities	<u>4,266,481</u>	<u>4,342,085</u>
<u>Net Position</u>		
Held in Trust for State Transit Assistance Claimants	<u>123,569</u>	<u>79,131</u>
Total Net Position	<u>\$ 123,569</u>	<u>\$ 79,131</u>

See notes to financial statements

State Transit Assistance Fund

**A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
by the County of San Diego**

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended June 30, 2024
(with Comparative Information for the Prior Year)

	<u>2024</u>	<u>2023</u>
<u>Additions:</u>		
Sales Tax	\$ 15,857,426	\$ 17,344,635
Interest	<u>44,438</u>	<u>27,347</u>
Total Additions	<u>15,901,864</u>	<u>17,371,982</u>
 <u>Deductions</u>		
Operating Costs	<u>15,857,426</u>	<u>17,344,635</u>
Total Deductions	<u>15,857,426</u>	<u>17,344,635</u>
 Change in Net Position	44,438	27,347
Net Position at the Beginning of the Year	<u>79,131</u>	<u>51,784</u>
 Net Position at the End of the Year	<u>\$ 123,569</u>	<u>\$ 79,131</u>

See notes to financial statements

State Transit Assistance Fund
A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
By the County of San Diego

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(1) General Information

The State Transit Assistance Fund (STAF) – A Fiduciary Fund Held in a Trustee Capacity as an Investment Trust Fund by the County of San Diego (County) was created pursuant to §99313.6, Article 6.5 of the Public Utilities Code. This fund receives monies allocated for the purposes of state transit assistance and are disbursed in accordance with allocation instructions received from the San Diego Association of Governments (SANDAG). The County acts as the trustee of the STAF.

Reporting Entity

Only the accounts of the STAF are included in these financial statements. Consequently, these financial statements do not represent the financial position, change in financial position or cash flows of the County. The accounts of the STAF have been presented in the County's Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position within the Investment Trust Funds.

(2) Summary of Significant Accounting Policies

The accounting policies of the STAF are in conformity with generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Basis of Accounting

The STAF financial statements include the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position and are reported using the economic resources measurement focus and the accrual basis of accounting.

Net Position Policy

When both restricted and unrestricted resources are available for use, the policy is to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

State Transit Assistance Fund
A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
By the County of San Diego

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. The information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the County's prior year STAF financial statements from which this selected data was derived.

(3) Cash and Investments

The County has pooled its cash and investments. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms. The STAF's cash and investments as of June 30, 2024 was \$116,906.

The STAF's cash is held in the County's external investment pool, which is reported at fair value. Interest income is allocated on the basis of average daily cash balances. Investment policies and associated risk factors applicable to the STAF are those of the County and are included in the County's basic financial statements.

Governmental Accounting Standards Board Statement No. 72 (GASB 72) Fair Value Measurement and Application establishes a hierarchy of inputs to valuation techniques used to measure fair value and requires disclosures to be made about investment fair value measurements, the level of fair value hierarchy, and valuation techniques.

According to GASB 72, an investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash.

Investments not measured at fair value continue to include, for example, money market mutual funds which are valued at net asset value - \$1 dollar per share (amortized cost).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement.

State Transit Assistance Fund
A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
By the County of San Diego

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(Continued)

(3) Cash and Investments (Continued)

The STAF categorizes its fair value measurements within the fair value hierarchy established by GASB 72. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and
- Level 3: Investments reflect prices based upon unobservable sources.

Deposits and withdrawals in the County's cash and investment pool are made on the basis of \$1 and not fair value. Accordingly, the STAF's proportionate share of investments in the pool at June 30, 2024, of \$116,906 is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input on the GASB Statement No. 72 fair value hierarchy.

(4) State of Good Repair

Total State of Good Repair (SGR) funds received for the year totals \$1,982,349 consisting of \$1,594,205 for PUC Section 99313 and \$388,144 for PUC Section 99314. Total expenditures and transfers out are \$1,594,205 and \$388,144 for PUC Sections 99313 and 99314 respectively.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the State Transit Assistance Fund (STAF) – A Fiduciary Fund Held in a Trustee Capacity as an Investment Trust Fund by the County of San Diego ("County"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the County's STAF financial statements, and have issued our report thereon dated December 19, 2024.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Board of Directors
San Diego Association of Governments
San Diego, California

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the County's STAF are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including §6750 and §6751 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including §6750 and §6751 of Part 21 of the California Code of Regulations.

Purpose of this Report

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

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

Irvine, California
December 19, 2024

**San Diego Metropolitan Transit System
State Transit Assistance Fund**

**A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
By the County of San Diego**

Financial Statements

For the Fiscal Year Ended June 30, 2024

**San Diego Metropolitan Transit System
State Transit Assistance Fund**

**A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
By the County of San Diego**

Financial Statements

For the Fiscal Year Ended June 30, 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the San Diego Metropolitan Transit System (MTS) State Transit Assistance Fund (STAF) – A Fiduciary Fund Held in a Trustee Capacity as an Investment Trust Fund by the County of San Diego ("County") as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the MTS STAF financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the MTS STAF of the County, as of June 30, 2024, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the County and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the MTS STAF of the County and do not purport to, and do not, present fairly the financial position of the County, as of June 30, 2024, the changes in its financial position, for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

The County's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the County's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the financial statements of MTS STAF for the year ended June 30, 2023, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 21, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Board of Directors
San Diego Association of Governments
San Diego, California

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2024, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Davis Fan".

Irvine, California
December 19, 2024

**San Diego Metropolitan Transit System
State Transit Assistance Fund**

**A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
by the County of San Diego**

Statement of Fiduciary Net Position

June 30, 2024
(with Comparative Information for the Prior Year)

	<u>2024</u>	<u>2023</u>
<u>Assets</u>		
Cash and Investments	\$ 263,776	\$ 91,244
Interest Receivable	17,022	16,383
Sales Tax Receivable	<u>11,736,753</u>	<u>12,128,897</u>
Total Assets	<u>12,017,551</u>	<u>12,236,524</u>
<u>Liabilities</u>		
Accounts Payable - Metropolitan Transit System	<u>11,736,753</u>	<u>12,128,898</u>
Total Liabilities	<u>11,736,753</u>	<u>12,128,898</u>
<u>Net Position</u>		
Held in Trust for State Transit Assistance Claimants	<u>280,798</u>	<u>107,626</u>
Total Net Position	<u>\$ 280,798</u>	<u>\$ 107,626</u>

See notes to financial statements

**San Diego Metropolitan Transit System
State Transit Assistance Fund**

**A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
by the County of San Diego**

Statement of Changes in Fiduciary Net Position

For the Fiscal Year Ended June 30, 2024
(with Comparative Information for the Prior Year)

	<u>2024</u>	<u>2023</u>
<u>Additions:</u>		
Sales Tax	\$ 43,622,586	\$ 48,449,974
Interest	<u>173,172</u>	<u>97,630</u>
 Total Additions	 <u>43,795,758</u>	 <u>48,547,604</u>
 <u>Deductions:</u>		
Operating Costs	<u>43,622,586</u>	<u>48,449,974</u>
 Total Deductions	 <u>43,622,586</u>	 <u>48,449,974</u>
 Change in Net Position	 173,172	 97,630
Net Position at the Beginning of the Year	<u>107,626</u>	<u>9,996</u>
 Net Position at the End of the Year	 <u>\$ 280,798</u>	 <u>\$ 107,626</u>

See notes to financial statements

**San Diego Metropolitan Transit System
State Transit Assistance Fund**

**A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
By the County of San Diego**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(1) General Information

The San Diego Metropolitan Transit System (MTS) State Transit Assistance Fund (STAF) – A Fiduciary Fund Held in a Trustee Capacity as an Investment Trust Fund by the County of San Diego (County) was created pursuant to §99313.6, Article 6.5 of the Public Utilities Code. This fund receives monies allocated for the purposes of state transit assistance and are disbursed in accordance with allocation instructions MTS. The County acts as the trustee of the MTS STAF.

Reporting Entity

Only the accounts of the MTS STAF are included in these financial statements. Consequently, these financial statements do not represent the financial position, change in financial position or cash flows of the County. The accounts of the MTS STAF have been presented in the County's Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position within the Investment Trust Funds.

(2) Summary of Significant Accounting Policies

The accounting policies of the MTS STAF are in conformity with generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

Basis of Accounting

The MTS STAF financial statements include the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position and are reported using the economic resources measurement focus and the accrual basis of accounting.

Net Position Policy

When both restricted and unrestricted resources are available for use, the policy is to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**San Diego Metropolitan Transit System
State Transit Assistance Fund**

**A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
By the County of San Diego**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(Continued)

(2) Summary of Significant Accounting Policies (Continued)

Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. The information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the County's prior year MTS STAF financial statements from which this selected data was derived.

(3) Cash and Investments

The County has pooled its cash and investments. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms. The MTS STAF's cash and investments as of June 30, 2024 was \$263,776.

The MTS STAF's cash is held in the County's external investment pool, which is reported at fair value. Interest income is allocated on the basis of average daily cash balances. Investment policies and associated risk factors applicable to the MTS STAF are those of the County and are included in the County's basic financial statements.

Governmental Accounting Standards Board Statement No. 72 (GASB 72) Fair Value Measurement and Application establishes a hierarchy of inputs to valuation techniques used to measure fair value and requires disclosures to be made about investment fair value measurements, the level of fair value hierarchy, and valuation techniques.

According to GASB 72, an investment is defined as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash.

Investments not measured at fair value continue to include, for example, money market mutual funds which are valued at net asset value - \$1 dollar per share (amortized cost).

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement.

**San Diego Metropolitan Transit System
State Transit Assistance Fund**

**A Fiduciary Fund Held in a Trustee
Capacity as an Investment Trust Fund
By the County of San Diego**

Notes to Financial Statements

For the Fiscal Year Ended June 30, 2024

(Continued)

(3) Cash and Investments (Continued)

The MTS STAF categorizes its fair value measurements within the fair value hierarchy established by GASB 72. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1: investments reflect prices quoted in active markets;
- Level 2: Investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active; and
- Level 3: Investments reflect prices based upon unobservable sources.

Deposits and withdrawals in the County's cash and investment pool are made on the basis of \$1 and not fair value. Accordingly, the MTS STAF's proportionate share of investments in the pool at June 30, 2024, of \$263,776 is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input on the GASB Statement No. 72 fair value hierarchy.

(4) State of Good Repair

Total State of Good Repair (SGR) funds received for the year totals \$ 5,455,018 consisting of \$3,856,957 for PUC Section 99313 and \$1,598,061 for PUC Section 99314. Total expenditures and transfers out are \$3,856,957 and \$1,598,061 for PUC Sections 99313 and 99314 respectively.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

INDEPENDENT AUDITOR'S REPORT

Board of Directors
San Diego Association of Governments
San Diego, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the San Diego Metropolitan Transit System (MTS) State Transit Assistance Fund (STAF) – A Fiduciary Fund Held in a Trustee Capacity as an Investment Trust Fund by the County of San Diego ("County"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the County's MTS STAF financial statements, and have issued our report thereon dated December 19, 2024.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during

Board of Directors
San Diego Association of Governments
San Diego, California

our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

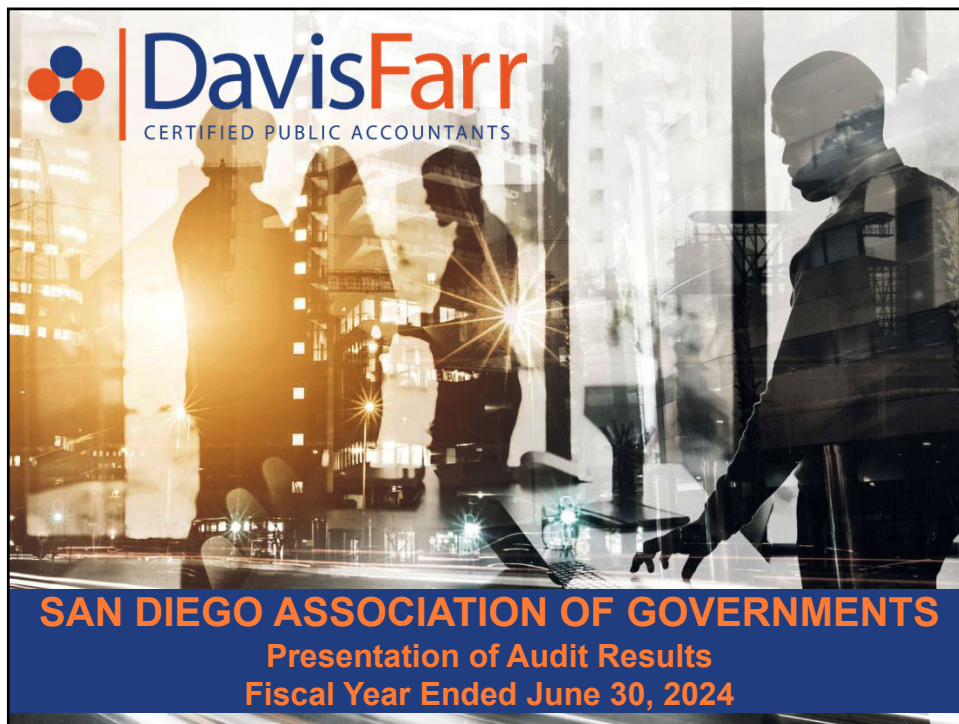
As part of obtaining reasonable assurance about whether the financial statements of the County's MTS STAF are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including §6750 and §6751 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including §6750 and §6751 of Part 21 of the California Code of Regulations.

Purpose of this Report

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

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

Irvine, California
December 19, 2024




1

Scope of the Audit

2

Audit of Financial Statements:	<ul style="list-style-type: none">• SANDAG• Regional Transportation Commission• South Bay Expressway• SourcePoint• ARJIS
Compliance and Agreed Upon Procedures:	<ul style="list-style-type: none">• TDA• TransNet• Single Audit of Federal Awards• FTA National Transit Database AUP• Coronado Bridge AUP



2

Timing of the Audit

3

- ❑ Began interim audit procedures in July 2024
- ❑ Final audit was originally scheduled to begin on November 4, 2024
 - ❑ Received trial balance to start final audit on January 3, 2025
 - ❑ Audit was delayed primarily due to the implementation of the new ERP system
- ❑ Finalized audit in March 2025



3

Audit Risk Assessment

4

- ❑ Communicated audit risk areas to audit committee in a letter dated Oct 21, 2024
 1. Implementation of new ERP system
 2. Toll road revenues
 3. Recording new debt transactions
 4. Federal grant noncompliance
- ❑ Unpredictability test – confirmations of significant receivable balances with other government



4

Implementation of ERP System

5

- ❑ Reviewed account mapping and transfer of beginning balances to new system
- ❑ Evaluated internal controls in the new system
- ❑ Certified Information Systems Auditor reviewed system and performed testing



5

Toll Road Revenues

6

- ❑ We were unable to obtain sufficient appropriate audit evidence supporting \$41,374,065 of SR 125 toll road revenue
 - ❑ Although SANDAG has developed work arounds and regular monitoring of ETAN's Fastlane system, the system was in use during the year
 - ❑ Clean up of errors and write offs of delinquencies occurred during the year but it is unclear whether those adjustments impacted FY 23/24 transactions or previous years (unable to verify proper revenue cutoff)
 - ❑ We were able to audit customer account balances at 6/30/24 and conclude there are no material misstatements



6

New Debt and Refunding

7

The 2023 Series A bonds

On July 13, 2023, the Commission issued \$433,355,000 **2023 Series A Sales Tax Revenue Bonds** to refund \$383,700,000 of the **2008 Series ABCD bonds** and \$122,123,000 of the **2019 Series A bonds**, and to pay the costs of issuing the 2023 Series A bonds, of which \$41,163,000 was refunded through an optional tender. The 2023 Series A bonds were issued with a premium of \$65,390,825 and carry an overall all-in interest rate of 3.23 percent with a maturity date of April 1, 2042.

The refunding of the 2008 Series ABCD and partial refunding of the 2019 Series A bonds resulted in a reduction in total debt service payments of \$39.0 million and obtained an economic gain (difference between the present values of the debt service payment on the old and new debt) of \$29.5 million.

Additionally, **as part of refunding the 2008 bonds, the associated swaps were terminated** with the accumulated change in fair value reported as \$0 in FY 2024. Receipts from the basis swaps in the amount of \$17.7 million were used to fund the termination of the interest rate swaps in the amount of \$24.2 million, resulting in an overall net loss of \$6.5 million on the swaps termination.



7

Single Audit of Federal Awards

8

- ❑ Total Federal Awards of \$300,659,646
- ❑ Two major programs were tested:
 - ❑ Covered 80% of total federal expenditures
 - ❑ Passenger Rail Program - \$3.9M
 - ❑ Federal Transit Cluster - \$238M
- ❑ Prior year finding to accurately prepare the Schedule of Expenditures of Federal Awards has been resolved



8

Internal Control Recommendations

9

- ❑ Adjustments Detected During the Audit
 - ❑ Error in recording the new debt
 - ❑ Errors in accounting for capital assets
- ❑ Single Audit Finding
 - ❑ Timeliness of reporting for Passenger Rail Grant
- ❑ Best Practice Recommendations
 - ❑ Trial balance should support financial statements without manual modifications of balances
 - ❑ IT should review service level agreements for 3rd party vendors



9

Questions and Comments

Jennifer Farr, CPA | Partner

Davis Farr LLP | 18201 Von Karman Ave, Suite 1100 | Irvine, CA 92612
Phone: 949.474.2020 | Email: jfarr@davisfarr.com



10



Fiscal Year 2024 Annual Comprehensive Financial Report and Other Financial and Compliance Audits

Audit Committee - Special Session | Item 4
Kimberly Trammel, Director, Accounting and Finance
Thursday, May 22, 2025

1

FY 2024 Financial Audit Timeline



2

Corrective Action Plans

Finding 2024-001 Adjustments Detected During the Audit

- Correction needed for deferred refunding loss related to the 2023A bond issuance
- Correction of construction in progress
- Correction to ARJIS capital assets

Recommendation: Enhance year-end close procedures

Corrective Action Plan

- Promote continued training for staff on complex transactions
- Improved usage of new tools developed for analysis and review
- Strengthen communication across departments on capital assets
- Improved controls in capital asset module

SANDAG | 3

3

Corrective Action Plans – Single Audit

Finding 2024-002 Reporting Requirements for Federal Awards

- Two instances of late quarterly reports for the Federal-State Partnership for Intercity Passenger Rail Program grant

Recommendation: Enhance the system of internal controls for tracking reporting requirements to ensure timely reporting

Corrective Action Plan

- Calendar reminders have been added to staff calendars at multiple levels providing advance notice of reporting submissions.
- Finance staff has a reminder in place to notify grant managers
- Coordinate a meeting of all staff responsible for reporting to facilitate the gathering of information needed for grant reporting.

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4

Best Practice Recommendations

1. Trial balance should support financial statements without manual modifications of balances
 - **Recommendation:** Add accounts to the ERP system to mirror the presentation in the financial statements
 - This is already an area of improvement identified by the Accounting & Finance Department
 - These changes will take time to implement as impacts on budget, contracts, billing, and grant reporting need to be considered.
2. Ensure services are provided at levels in accordance with 3rd party vendor agreements regarding security, availability, and processing integrity of software.
 - **Recommendation:** IT implement a review of 3rd party vendors whose services impact financial reporting at least annually
 - IT has a third-party risk assessment process in place, but it is not enough to cover all critical systems.
 - IT is currently working to include all financial systems in the scope.

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5

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6

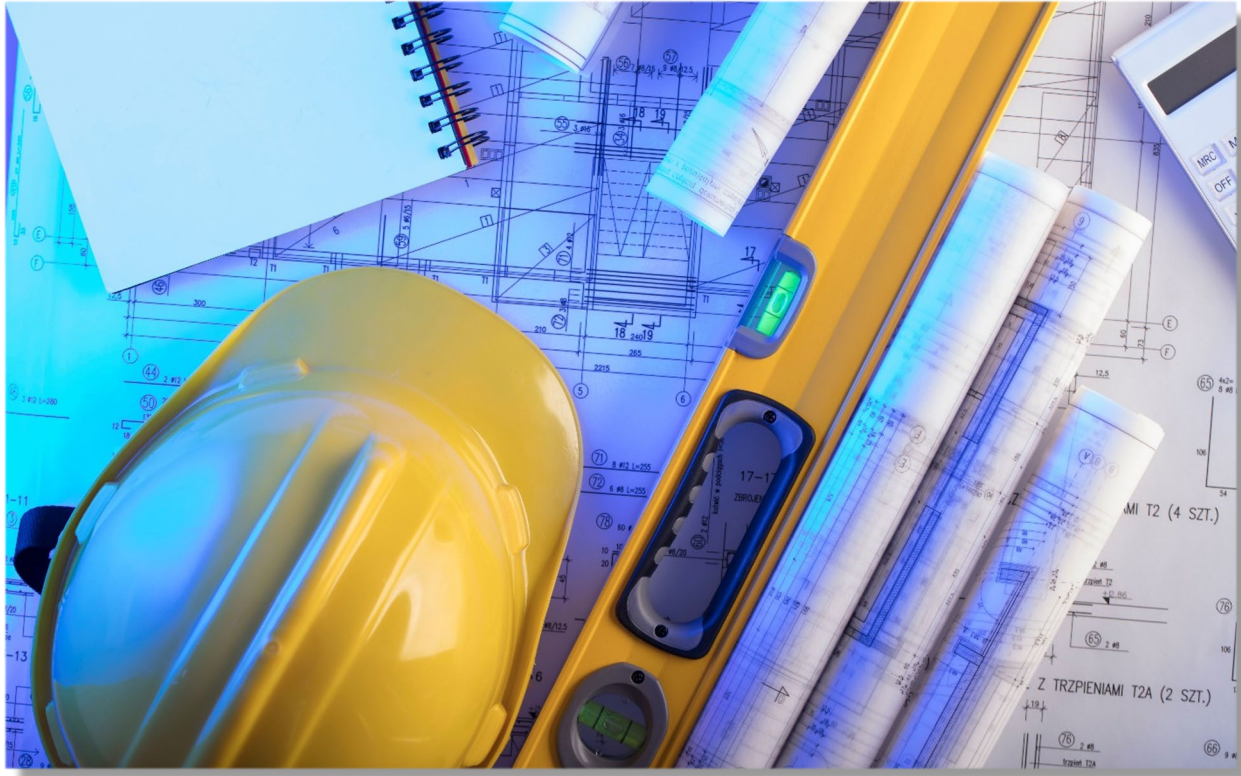
6

SANDAG

OIPA

Office of the Independent
Performance Auditor

PERFORMANCE AUDIT OF SANDAG'S SOLE SOURCE PROCUREMENT PROCESS



Independent Performance Auditor
Courtney Ruby, CPA, CFE

Audit Team

Lloyd Carter, Deputy Independent Performance Auditor
Michelle Ludwick, CIA, CGAP, Principal Independent Auditor
Michael Ryan, CFE, Associate Independent Auditor

May 19, 2025

Courtney A. Ruby, CPA, CFE
Independent Performance Auditor

May 19, 2025

Lesa Heebner, Chair
SANDAG Board of Directors

Jack Fisher, Chair
SANDAG Audit Committee

SUBJECT: PERFORMANCE AUDIT OF SANDAG'S SOLE SOURCE PROCUREMENT
PROCESS FOR THE PERIOD OF JULY 1, 2022, THROUGH JUNE 30, 2024

Dear Chair Heebner and Chair Fisher:

The Office of the Independent Performance Auditor (OIPA) completed the Performance Audit of SANDAG's Sole Source Procurement Process for the period of July 1, 2022 to June 30, 2024. The audit's objective was to determine if SANDAG's sole source procurements were properly processed and utilized only in limited circumstances. While competitive bidding is the required method for acquiring goods and services in public sector procurements, sole source procurements are allowed in limited cases – such as when specialized needs make competition impractical or not in the public's best interest.

Since late 2022, OIPA issued two contracting audits identifying many issues related to procurement processes, including sole source procurements. These issues included a misapplication of contracting policy and procedures, poor record keeping, inconsistent and insufficient departmental guidance, and staff lacking the knowledge and training to effectively safeguard the Agency from the numerous risks inherent in public procurement.

In March 2024, OIPA issued an investigation related to SANDAG's State Route (SR) 125 Toll Operations Back-Office System and recommended the sole source procurement process be included in OIPA's fiscal year 24/25 audit work plan. Additionally, in October 2024, OIPA issued a companion investigation related to SR 125 and found the \$28M sole source contract award in January 2024 to Deloitte for the replacement SR 125 back-office system was not sufficiently scrutinized, justified, or documented, thus highlighting the significant risk the current sole source practices pose to the Agency.

This audit found the problems identified in OIPA's past reports persisted and were largely attributed to insufficient oversight throughout the process and contributed to an excessive utilization of sole source procurements by SANDAG.

Management's September 2022 response to OIPA's Contracts and Procurement Operational and System Control Audit (Part I) released in October 2022, included the following statements:

The contract and procurement program is one of the agency's most essential business functions, and as such, it is Management's intention to prepare a work plan that will result in operational excellence as well as effective oversight, administration, and regulatory compliance. Once developed, the work plan will be shared with OIPA, the Audit Committee, and the Board of Directors for consideration. In the interim, Management shall consider OIPA's recommendations and implement changes where these align to existing work efforts and planned activities.

Supported by the results from Part II of the audit, Management will examine existing practices and approval criteria to ensure sole sources are being used appropriately and judicially.

The operational work plan referenced above in Management's response was not provided to OIPA, the Audit Committee, or the Board of Directors, and many of the prior contracting audits' recommendations were dependent upon the new Enterprise Resource Planning (ERP) system. As such, many of the planned recommendation implementation dates were in late 2024 and 2025.

As an Agency, it is incumbent that risks and resources are prioritized accordingly. Given the Agency's significant capital projects budget, contracting processes must be above reproach. A commitment was made to "*examine existing practices and approval criteria to ensure sole sources are being used appropriately and judicially*"; however this commitment was not kept. In addition, the new ERP system that was intended to support the Department of Contracting and Procurement Services (DCPS) in making progress has instead set the Department back, due to poor planning from past management. DCPS now must transition a significant part of their contracting process back to their former Contracts Management System (CMS). The underlying issues of accountability and executive leadership contributing to these setbacks are documented in OIPA's past reports.

It is important to also note OIPA's testing during the audit was limited due to SANDAG's inability to obtain contract and sole source information from its ERP system from January to June 2024 and necessary contract data from CMS from July 2022 to December 2023.

SANDAG appears to be turning a page with a new CEO committed to accountability, transparency, and operational integrity. OIPA's future audits will assess the new administration's work, and it is my hope that this audit's recommendations assist the new administration in meeting their goals.

I would like to thank SANDAG management and especially DCPS staff for their cooperation during this audit and their commitment to implement all 18 audit recommendations directed to management. 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 – Performance Audit of SANDAG’s Sole Source Procurement Process
2. Management’s Response and Corrective Action Plan

Report Highlights

THIS AUDIT

This audit focused on SANDAG's sole source procurement practices from July 1, 2022 through June 30, 2024, and found the issues identified in 2022 remain. While the Agency intended to address these matters sooner, accountability and leadership issues found in prior audits and investigations prevailed. This audit found these sole source procurement problems persisted and were largely attributed to insufficient oversight throughout the process and contributed to an excessive utilization of sole source procurements by SANDAG.

OIPA FOUND

- Subsequent work performed on projects (follow-on work) awarded by sole source cannot be tied to previous, competitively awarded contracts, a contract was unnecessarily sole sourced, and a policy exception was erroneously used to approve 50 sole source awards. (Finding I)
- Pervasive design errors and gaps within the sole source procurement process – leadership reviews and approvals are insufficient, with unclear responsibilities and no visibility into what is being assessed at each level. We also identified knowledge gaps within groups responsible for using sole source procurements. (Finding II)
- Significant internal control gaps in the sole source process resulted in a higher number of contracts awarded without competitive bidding. Additionally, the Agency does not have the ability to capture key data to assess the use and appropriateness of sole source contracts. Also, OIPA identified concerns with staff's use of the sole source process and the potential for preferential treatment of certain vendors. (Finding III)
- Contract amendments exceeded the monetary threshold requiring a sole source justification but were not treated as a sole source. Also, the parent contracts did not include the required maximum contract value. Finally, SANDAG's threshold for approving contract increases without a competitive process does not consider the impact of significant increases in terms of costs (materiality) and is not aligned with other government best practices. (Finding IV)
- SANDAG's sole source procurement policies do not include clear, sole source specific requirements for Board of Directors' consent. (Finding V)

OIPA RECOMMENDS

19 recommendations to improve oversight over the sole source procurement process. Key recommendations include:

- Improve the process of documenting how each contract is awarded and ensure contract documentation is clear, comprehensive, complete and readily accessible.
- Establish a comprehensive protocol for policy exceptions for unforeseen circumstances.
- Evaluate if the Agency's sole source procurement approval and review process provides an appropriate level of control.
- Annual performance reviews for contracting staff and Project Managers should include expectations to demonstrate their knowledge and execution of their contract responsibilities with adequate professional care to ensure accuracy, completeness, and compliance.
- Establish and document key controls for ensuring effective monitoring and continuous improvement of the sole source process.
- Identify data needed to track sole source volume and dollar amounts in SANDAG's system(s).
- Update policy to require contract staff to evaluate and document the need to sole source contract amendments.
- Evaluate and revise policy to strengthen requirements for when amendments should be awarded by sole source, considering materiality and the original contract value.
- Work with the Board to develop a specific dollar threshold for requesting Board consent prior to awarding contracts by sole source.

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Introduction and Background

INTRODUCTION

The San Diego Association of Governments (SANDAG or Agency) oversees regional transportation planning, public transit investments, and infrastructure projects across the San Diego region. It is governed by a Board of Directors (Board) made up of mayors, councilmembers, and county supervisors from each of the region's 18 cities and the County of San Diego. Supplementing these voting members are advisory member representatives from Imperial County, the U.S. Department of Defense, California Department of Transportation (Caltrans), Metropolitan Transit System, North County Transit District, San Diego County Water Authority, San Diego Unified Port District, San Diego Regional Airport Authority, Southern California Tribal Chairmen's Association, and Mexico. For fiscal year 2024-25, SANDAG's program budget is \$1.3 billion¹.

BACKGROUND

As a public agency, SANDAG must follow federal, state, and local regulations and internal procurement policies and procedures to ensure transparency and fairness in the procurement process. While competitive bidding is the required method for acquiring goods and services, sole source procurements are allowed in limited cases – such as when specialized needs make competition impractical or not in the public's best interest.

HOW SANDAG PROCURES GOODS AND SERVICES

SANDAG uses several procurement types to obtain goods and services from vendors, all of which may be amended by mutual agreement. Typically, a solicitation is the process of requesting bids, proposals, or offers from vendors to fulfill goods or services. It is the preliminary stage before a contract is awarded and can include Request for Proposals (RFP), Request for Offers (RFO), Invitation for Bids (IFB), Request for Qualifications (RFQ), or a Request for Information (RFI). It is an invitation (solicitation) to negotiate or compete for a contract, but it is not a binding agreement.

Our audit reviewed the following procurement types, as defined in the SANDAG Procurement Manual:

- **Contract** - A mutually binding legal relationship obligating the seller to furnish the goods or services and the buyer to pay for them. It encompasses various commitments that obligate SANDAG to do or not do something, including bilateral instruments, Memorandum of Understanding (MOUs), grant awards,

¹ SANDAG's budget includes \$80.9M for regional planning projects, \$79.9M for the management of ongoing regional operational programs and customer services, and \$683.2M for the capital program, with \$217.1M to be passed through to local agencies.

contracts, job orders or task orders, letter contracts, and purchase orders that become effective by written acceptance or performance.

- On-Call Contracts - An indefinite delivery indefinite quantity (IDIQ) master contract with a general scope of work further defined through task orders when specific scopes of work are known and agreed to for projects. On-call contracts may be either single award, such as a job order contract or multiple award master contracts to several vendors.
- Task Order - A contract document that is issued under an on-call contract to authorize work to a vendor in phases, or for specific projects.
- Job Order Contract - a competitively bid, firm fixed-price, indefinite quantity contract setting forth detailed repair and construction items of work, including descriptions, specifications, units of measurement, and individual unit prices for each item of work.

To invoke changes to contracts, organizations use amendments - an agreed upon modification to an existing contract, including but not limited to, cost, scope of work, contract duration, and deliverable time schedule modifications. Caltrans' Local Assistance Procedures Manual §10.8 states all contract amendments must be in writing and fully executed by the consultant and local agency before work begins.

For large capital projects SANDAG may enter into IDIQ contracts with a group of on-call vendors who possess the requisite qualifications. To award projects, SANDAG solicits the on-call vendors to compete for project task orders based on the vendor's qualifications and project's specific scope of work. SANDAG awards the work based on the vendor specialty, geographic location of the work, or via competitive mini-task-order solicitations.

Many of SANDAG's large capital projects occur over many phases and many years. These are known as *multi-phase projects*. The original solicitations are expected to define all planned project phases, and the requirements/qualifications that contractors must meet to perform the project. The solicitations are openly competed to ensure fair and open competition.

At times, SANDAG may refer to subsequent work performed on a project as *follow-on* work. SANDAG considers this work to be a logical continuation, or the next step of work already performed or in progress. Subsequent follow-on work may be awarded via a new contract or amendment.

PROCUREMENT LAWS, REGULATIONS, AND BEST PRACTICES

Federal regulations require the Agency's procurement processes to follow strict federal standards to maintain consistency, transparency and accountability when using public funds. The California Government Code mandates local government agencies to create procurement policies with competitive bidding rules to ensure fairness and prevent favoritism.

The SANDAG Board of Directors' policies Nos. 015, 016, and 024 outline requirements for procurements, documentation, and record-keeping to ensure procurement decisions align with established oversight procedures.

- Board Policy 015 outlines expectations for record management, including safekeeping of records and ease of access to records for employees and the public, in accordance with laws and regulations.
- Board Policy 016 outlines the statutory requirements and expectations for SANDAG to procure services.
- Board Policy 024 establishes a method for administering SANDAG construction procurements.

SANDAG'S Procurement Manual outlines the rules and procedures for purchasing goods and services using competitive bidding and sole source procurement methods, vendor requirements such as qualifications and certifications, and how proposals and cost estimates are evaluated. The manual also includes guidance on contract negotiation and management, ethical guidelines to prevent conflicts of interest, and approval processes based on procurement thresholds.

SOLE SOURCE PROCUREMENT METHODOLOGY

The Federal Transit Administration (FTA) defines a sole source procurement when an agency requires supplies or services available from only one responsible source, and no other supplies or services will satisfy the agency's requirements. The FTA only allows non-competitive, sole source procurements in specific cases, such as when no competition exists or during emergencies.

When only one vendor is available or uniquely qualified, making competitive bidding impractical, SANDAG may make a sole source award. A sole source award requires staff to document the justification(s) for sole sourcing the procurement².

According to SANDAG's Procurement Manual, a procurement can be sole sourced under any of the three following circumstances:

1. When SANDAG requires supplies or services available from only one responsible source and no other supplies or services will satisfy its requirements.
2. When SANDAG issues a competitive solicitation, and a single proposal/bid is received.
3. When SANDAG requires an existing contractor to make a change to its contract that is beyond the scope or more than 25 percent above the dollar value of the original solicitation.

² See Appendix C – SANDAG's Sole Source Justification Form.

As shown in Table 1 below, the FTA and SANDAG have specific justifications that can be used to rationalize the use of sole source procurements. However, the FTA and SANDAG prohibit a sole source to be justified when the need for the sole source is:

- Due to either a failure to plan or a lack of advance planning, or,
- Due to concerns about the amount of assistance available.

Table 1 - Justification of Sole Sourcing Procurements

Federal Transit Administration (FTA) Justifications for Sole Source	<p>Applicable for all funding sources:</p> <ul style="list-style-type: none"> • Statutory authorization or requirement (engineer of record) • Authorized by FTA • Public interest • Single bid or single proposal • Unique or innovative concept • Unusual and compelling urgency <p>Applicable for Local³ or FTA funding sources:</p> <ul style="list-style-type: none"> • International arrangements • National emergency • National security • Protests, disputes, claims, litigation • Substantial duplication costs • Unacceptable delay
SANDAG Board Policy Justifications for Sole Source	<p>Applicable for Local funding sources only:</p> <ul style="list-style-type: none"> • Unique/highly specialized item/service • Existing contractor/consultant follow-on work (economy or efficiency) • Competitive procurement exceeds cost of work/item • Integral to existing equipment • Essential to research or operational continuity • Existing specialized training/expertise

Source: FTA Circular 4220.1F, Chapter VI, Section 3.i.(1), Board Policy 016, 023, and 024

TIMELINE OF SANDAG'S CONTRACT DOCUMENT REPOSITORIES

Prior to March 2020, SANDAG stored contract and task order documents and their amendments in the Contracts Library, a share drive that is available to the entire Agency. Supporting documents and working documents for contracts were stored in a separate share drive accessible only to the Department of Contracting and Procurement Services (DCPS).

In March 2020, SANDAG's Contract Management System (CMS) went live. SANDAG started processing solicitations, contracts, task orders, and amendments in CMS. At

³ Local funding refers to revenue generated and allocated at the city, county, or regional level rather than from state or federal sources to plan, build, maintain, and improve transportation infrastructure and services.

the time, there was no plan to move all electronic contract documents from the Contracts Library to CMS. The 2019 Contracts & Procurement Contracts Management System User Guide states that all data for legacy contracts would be entered into CMS. Legacy contracts are contracts, task orders, purchase orders, amendments, etc. stored in Contracts Library.

All Agency staff have access to CMS, and the system was also configured to provide an audit trail. SANDAG continued to store working documents for solicitations, contracts, task orders, and purchase orders on share drives that were accessible to only the DCPS.

The Agency procured an Enterprise Resource Planning (ERP) system in March 2022. The system was intended to combine approximately 14 independent systems spanning various functional areas including accounting, budgeting, contracting and procurement, planning, and human resources into one comprehensive system.

In January 2024, SANDAG began storing solicitation and contract approvals and records, purchase orders, and task orders in its ERP system. SANDAG's record retention system is outlined in Figure 1 below.

During the ERP implementation, significant limitations related to the procurement function within ERP were identified, and management decided CMS and ERP would need to be used together to support the Agency's procurement function.

CMS will manage solicitation, procurement, and contract award activities, while the ERP will remain the system of record for budgeting and accounting related to awarded contracts.

A plan to transition back to CMS is expected to be ready in July 2025.

Figure 1 - SANDAG's Record Retention System



Source: OIPA generated

PREVIOUSLY ISSUED OIPA REPORTS

Since 2022, OIPA issued two contracting audits identifying many issues related to procurement processes, including sole source procurements. These issues included misapplication of contracting policy and procedure, poor record keeping, inconsistent and insufficient departmental guidance, and staff lacking the knowledge and training to effectively safeguard the Agency from the numerous risks inherent in public procurement.

In 2024, OIPA issued an investigation related to SANDAG's State Route (SR) 125 Toll Operations and recommended the sole source procurement process be included in OIPA's fiscal year 24/25 audit work plan. This recommendation was approved by the Audit Committee. Additionally, in October 2024, OIPA issued a companion investigation related to SR 125 and found the \$28M sole source contract award in January 2024 to Deloitte for the replacement SR 125 back-office system was not sufficiently scrutinized, justified, or documented, thus highlighting the significant risk the current sole source practices pose to the Agency.

In Management's September 2022 response to OIPA's Contracts and Procurement Operational and System Control Audit (Part I) released in October 2022, Management stated:

Management has reviewed the draft audit report and agrees with the findings. Management also has considered OIPA's recommendations for responding to the audit findings and believes a more comprehensive work plan, beyond the proposed actions recommended by OIPA, is warranted to address the organizational and systemic issues that currently impact the overall effectiveness of the agency's contracts and procurement program. Some of this work is already underway.

The Contracts audit started soon after the adoption of the agency's Strategic Plan in early 2022 - five initiatives designed to strengthen resource allocation, technology infrastructure, communication, recruitment and retention of employees, and access to outside resources. The Strategic Plan reflects the operational priorities of the Senior Executive team and includes the following work efforts that align with the audit recommendations:

- *Transition to a matrixed approach to project delivery and resource allocation. Department functions may need to be restructured, and positions repurposed to achieve this organization design; the emphasis is on establishing a robust and effective project management infrastructure that includes capabilities with respect to contract management responsibilities.*
- *Implementation of an Enterprise Resource Planning (ERP) system. The decision to replace the existing financial, budgeting, contracts management, and human resources/payroll systems with an ERP was initiated in 2019. Since the time the project commenced in early 2022, opportunities to leverage the ERP's capabilities in additional program areas have been evaluated.*
- *Improving practices that streamline the procurement of goods and services. Feedback has been sought from internal customers regarding actions that can be taken to become more efficient in accessing consultants, contractors, vendors, etc. while ensuring compliance with all applicable laws, regulations, and policies. Changes to the workflows and processes used within the Contracts team have been implemented*

as an initial first step. Other actions have been contemplated but not yet acted upon while waiting for the OIPA audit to be complete.

*As noted, Management agreed with the audit findings, and with the outcomes expected to be achieved via the recommended actions, specifically ensuring the agency has effective policies, procedures, and processes; capable and proficient staff who are aware of their roles, responsibilities, and performance expectations; and a robust technology solution that improves efficiency and supports recordkeeping, reporting, and controls. **The contract and procurement program is one of the agency's most essential business functions, and as such, it is Management's intention to prepare a work plan that will result in operational excellence as well as effective oversight, administration, and regulatory compliance. Once developed, the work plan will be shared with OIPA, the Audit Committee, and the Board of Directors for consideration. In the interim, Management shall consider OIPA's recommendations and implement changes where these align to existing work efforts and planned activities.*** [Emphasis added by OIPA]

With respect to Finding VII, Management agrees the agency's contracts and procurement program must be designed and managed to ensure that fair, competitive, and legally compliant processes are used. Due to the diversity of SANDAG's programs, projects, and business needs, various industry-standard procurement methods are used to obtain goods and services, including sole source awards and on-call solicitations. The audit results are consistent with the use of these practices.

*Sole source awards, by definition, are the result of limited competition and Management agrees this procurement method should be used only when there is reasonable and justifiable business necessity that is in both SANDAG's and the public's best interest. Supported by the results from Part II of the audit, **Management will examine existing practices and approval criteria to ensure sole sources are being used appropriately and judiciously.*** [Emphasis added by OIPA]

The operational plan referenced above in management's response was not provided to OIPA, the Audit Committee, and the Board of Directors. Management did inform OIPA and the Audit Committee that many of the issues identified would be rectified during the transition to the new ERP system. As such, many of their planned implementation dates were in late 2024 and 2025. Recommendations, related to the sole source process, from Contracts and Procurement Operational and System Control Audit (Part I and II), SR125 Toll Operations Investigation, and the Whistleblower Investigation Report on SANDAG's New Tolling Back Office System Implementation can be found in Appendix B with their current implementation status reflected.

NEW LEADERSHIP AND CURRENT ACTIVITIES

In June 2024, a new CEO joined SANDAG, and around October 2024 they began reviewing all requests to sole source contracts. In July 2024, the Board of Directors began receiving a semi-annual report on sole source procurements. In February 2025, DCPS issued a revised Procurement Manual, a sole source fact sheet, and roles and responsibilities in the contract lifecycle.

THIS AUDIT

This audit focused on SANDAG's sole source procurement practices from July 1, 2022 through June 30, 2024, and found the issues identified in 2022 remain. While the Agency intended to address these matters in a timelier manner, accountability and leadership issues found in prior audits and investigations prevailed.

Findings and Recommendations

FINDING I - IMPROPER SOLE SOURCE JUSTIFICATIONS, UNNECESSARY SOLE SOURCING, AND UNAUTHORIZED POLICY EXCEPTION

Summary

OIPA judgmentally selected a sample of 35 (totaling \$43.8M) of 139⁴ (totaling \$74.3M) newly awarded contracts that were sole sourced. We examined SANDAG's contract documentation to ensure the use of the sole source procurement method was allowable and justified as required.

We found follow-on work awarded by sole source cannot be tied to previous, competitively awarded contracts, a contract was unnecessarily sole sourced, and a policy exception was erroneously used to approve approximately 50 sole source awards.

Follow-On Work Awarded by Sole Source Cannot Be Tied to Previous Competitive Awards

According to Board Policy 016, SANDAG can justify the use of sole source contract awards based on *economy and efficiency*, meaning using a vendor to continue work (follow-on) for an existing project is expected to save the Agency time and money. However, a condition for using this justification is that the follow-on work must be tied to work that was previously awarded to the vendor through a competitive process.

To assess the validity of justifications used for selecting the sole source procurement method, we reviewed contract and project documents to verify the rationale provided was sufficient. We found that 23 of 35 contracts cited "economy and efficiency" as the reason for sole sourcing. A review of these 23 contracts found:

- 9 contracts (totaling \$6.7M) were missing documentation to demonstrate the follow-on work was tied to a prior competitively awarded contract. As a result, SANDAG cannot ensure that the origin of work was competitively awarded. There is no quality assurance process to ensure original award competition documents are saved to a single project file.
- 2 contracts (totaling \$5,386) were sole sourced for follow-on work; however, the original work had also been awarded via sole source, not by competition. These awards did not comply with Board policy. The Agency has not defined a process for contract staff to review whether sole source justifications are adequately supported. As a result, we were unable to determine if a review

⁴ Audit Scope Limitation: SANDAG provided a list of the population of new, sole source contracts to OIPA. However, the OIPA could not validate the total count of contracts processed through SANDAG's ERP due to system limitations. OIPA did validate the existence of 15 new, sole source contracts in ERP for this test. See Appendix A for the scope limitation to OIPA's Audit Methodology.

was conducted, and if so, whether this error was overlooked during the review.

SANDAG Board Policy 015 requires all SANDAG business records be maintained in an organized fashion in a location that is easily identifiable in the event of a public records request.

Phased Work Previously Competitively Awarded Was Unnecessarily Sole Sourced

The SANDAG Procurement Manual states that future project phases should be outlined in contracts to prevent unnecessary sole source procurement.

However, a review of 35 sole source contracts found that one (1) contract (totaling \$2M) had been unnecessarily sole sourced even though the work was competitively awarded as part of a multi-phase project. As records were not readily available to show the work was part of a competitively awarded multi-phase project, staff processed the work as a sole source to ensure appropriate justification for awarding the work to the same vendor.

Unclear project documentation and an incomplete audit trail increases the risk staff cannot verify how past work was awarded to vendors. Since contract history directly impacts how future work is awarded to vendors, there are increased operational inefficiencies including redundancy and extra work. This extra work can cause confusion in responsibilities and lead to inconsistently applied processes. Time spent on non-essential work can also delay critical deliverables. In regulated environments, doing unauthorized or unapproved work leads to compliance issues.

Unauthorized Policy Exception: Blanket Approval of 50 Sole Source Contracts by E-mail

OIPA found 11 (totaling \$5.1M) of 35 sole source contracts were approved as part of a transfer of work from an expiring on-call master solicitation via a blanket approval⁵. To expedite the transfer of incomplete work from open task orders, SANDAG elected to open approximately 50 new task orders or standard service agreements with vendors who had not completed work on the expiring solicitation to extend the completion time only. However, rather than evaluating the procurement method on a case-by-case basis to determine if the work should be competitively bid or sole sourced, SANDAG approved sole sourcing these contracts by blanket approval⁶ in June 2022.

We identified the following errors and concerns with the blanket approval of these sole sources:

⁵ A blanket approval refers to a contract action, in this case, an approval, being applied in mass to multiple contracts.

⁶ See Appendix D – SANDAG's Blanket Approval to Award 50 Contracts to Vendors by Sole Source for timeline of events.

- It is unclear why work for 50 contracts was not finished before the on-call contract expired. The Agency could not sufficiently explain why so much work had to be moved to new contracts. This may be due to SANDAG approving scopes of work that couldn't realistically be completed before the contract expired or it did not hold vendors accountable for completing work as scheduled.
- All 50 contracts, including the 11 sampled, had the same rationale for why the sole source was needed, indicating the need to move work to a new contract was not evaluated on a case-by-case basis.
- SANDAG did not follow its Procurement Manual for processing sole source procurements. A single justification form was used to blanket approve all 50 contracts. The form was prepared by a Contract Analyst, rather than the Project Manager(s) as required. The Department Director approved the form by email and did not sign the form as required. SANDAG did not finalize the form, instead it saved a draft version of the form to each of the 11 contract files reviewed.
- Of the 11 contracts we reviewed, 10 contracts were later amended to add time, costs, or additional work. As shown in Figure 2, increased costs ranged from 64 percent to 3,300 percent. The need for future amendments suggests that SANDAG underestimated the time and cost needed to realistically complete work or did not hold vendors accountable for completing work as scheduled.

Figure 2 – Amendments to Increase Award Amounts for Contracts Previously Awarded by Blanket Approval

Count	Contract	Task Order No.	Vendor	Title	# of Ams	Original Award	Increased Award Amount	Total Award	% Increase
1	882170	3	HNTB Corporation	San Dieguito Double Track Plans, Specifications, and Estimates Phase 1 Project (SDDT)	2	\$1,178,709	\$3,314,896	\$4,493,605	281%
2	882168	3	AECOM Technical Services, Inc.	Buena Vista Lagoon Enhancement Project - Project Refinement and Technical Investigations	3	\$898,830	\$2,054,853	\$2,953,683	229%
3	882168	1	AECOM Technical Services, Inc.	San Dieguito Lagoon W-19 Restoration Project - Phase 5 Construction	4	\$698,540	\$1,256,006	\$1,954,545	180%
4	882176	7	T.Y. Lin International	Palomar Grade Separation 30% PS&E	1	\$1,206,114	\$ -	\$1,206,114	- %
5	882175	2	RailPros, Inc.	LOSSAN Corridor - Program Management & Peer Review Support	2	\$309,671	\$890,308	\$1,199,979	288%
6	1011930	N/A	Arcadis, a California Partnership	Uptown Bikeways - Phase 3 Final Design	1	\$256,492	\$634,323	\$890,815	247%
7	882176	2	T.Y. Lin International	Uptown: Eastern Hillcrest Bikeways Final Design	3	\$386,015	\$319,475	\$705,490	83%
8	1011927	N/A	Kimley-Horn and Associates, Inc.	Orange Bikeway Final Design (North Park Mid-City)	2	\$115,748	\$74,500	\$190,248	64%
9	882169	1	HDR Engineering, Inc.	Construction Support Services - Elvira to Morena Double Track Project	1	\$2,362	\$77,952	\$80,314	3300%
10	882170	5	HNTB Corporation	San Onofre to Pulgas Double Track Phase 2 TO 5	2	\$77,295	\$1,189,250	\$1,266,545	1539%
Totals					21	\$5,129,775	\$9,811,564	\$14,941,338	

Source: CMS and ERP

SANDAG policies and procedures do not permit a policy exception such as a blanket approval of sole source contracts, even in unforeseen circumstances. During the

COVID era, Caltrans-related delays prompted the use of mass approvals to maintain project momentum, despite SANDAG's own policy restrictions. In such cases, the lack of clear policies can result in the Agency's non-compliance with its policies, and lack of standard procedures for how to properly perform and document the review and approval of contracts by this method.

FTA Circular 4220.1F permits non-competitive procurements only under specific conditions, necessitating justification for any policy exceptions.

Also, the Federal Uniform Guidance and California regulations require local agencies to establish procurement policies:

- Uniform Guidance (2 CFR Part 200) mandates that procurement procedures align with federal standards to ensure transparency and competition.
- The California Government Code §54202 requires local agencies to establish procurement policies, including competitive bidding regulations, which could impact the validity of a blanket contract extension.

The SANDAG Procurement Manual states that Project Managers are responsible for providing accurate and complete information to support their recommendation for a noncompetitive procurement and their Department Directors certify that they agree with the recommendation provided by the Project Manager.

Considerations for the Use of Blanket Approvals

According to the FTA:

Federal procurement regulations neither authorize nor prohibit recipients from approving multiple change orders in a single "blanket approval" action. Although this action is not specifically defined under federal procurement standards, approving multiple change orders in a single "blanket approval" would generally be discouraged, but is not prohibited. There may be situations in which such an action may be reasonable and appropriate.

It is important to note that Federal procurement requirements do not explicitly recognize a contractual action termed "Blanket Change Order Approval." If a transit agency's applicable state and local procurement regulations or policies allow for blanket approvals and the procurement official followed the applicable regulation or policy, then the blanket approval could be a valid procurement method for that particular transit agency. A transit agency using a blanket approval should identify its authority for doing so in the blanket approval and include the document in the project file. Likewise, if a transit agency's procurement regulations or policies do not allow for or address blanket approvals, then a blanket approval would not be a valid procurement method.

RECOMMENDATIONS

1. For the nine (9) missing contracts, document their absence in the contract file and do not allow future sole source follow-on work for the project.
2. Revise the process to document how each contract is awarded (contract history) and ensure contract documentation is clear, comprehensive, complete and readily accessible.
3. Develop a procedure to identify and document the contract award method for past projects to ensure follow-on work is adequately validated.
4. Create criteria for evaluating if the sole source *economy and efficiency* justification is reasonable, including but not limited to:
 - Steps to identify if a prior contract was multi-phase.
 - Steps to identify if the new contract's scope of work was included in the original, competitively awarded contract.
5. Establish a protocol for policy exceptions for unforeseen circumstances. Such a policy should be comprehensive and include, but not be limited to:
 - Define exception and authority for such an exception.
 - Define any limitations related to the exception:
 - For example, can it be applied to multiple contracts in the form of a blanket approval? Or only to a single contract? Can it include future contract actions, such as amendments for time, costs, and scope?
 - Include documentation and analysis requirements to justify appropriate application.

FINDING II - INEFFICIENCIES AND RISKS IN THE SOLE SOURCE REVIEW AND APPROVAL PROCESS

Summary

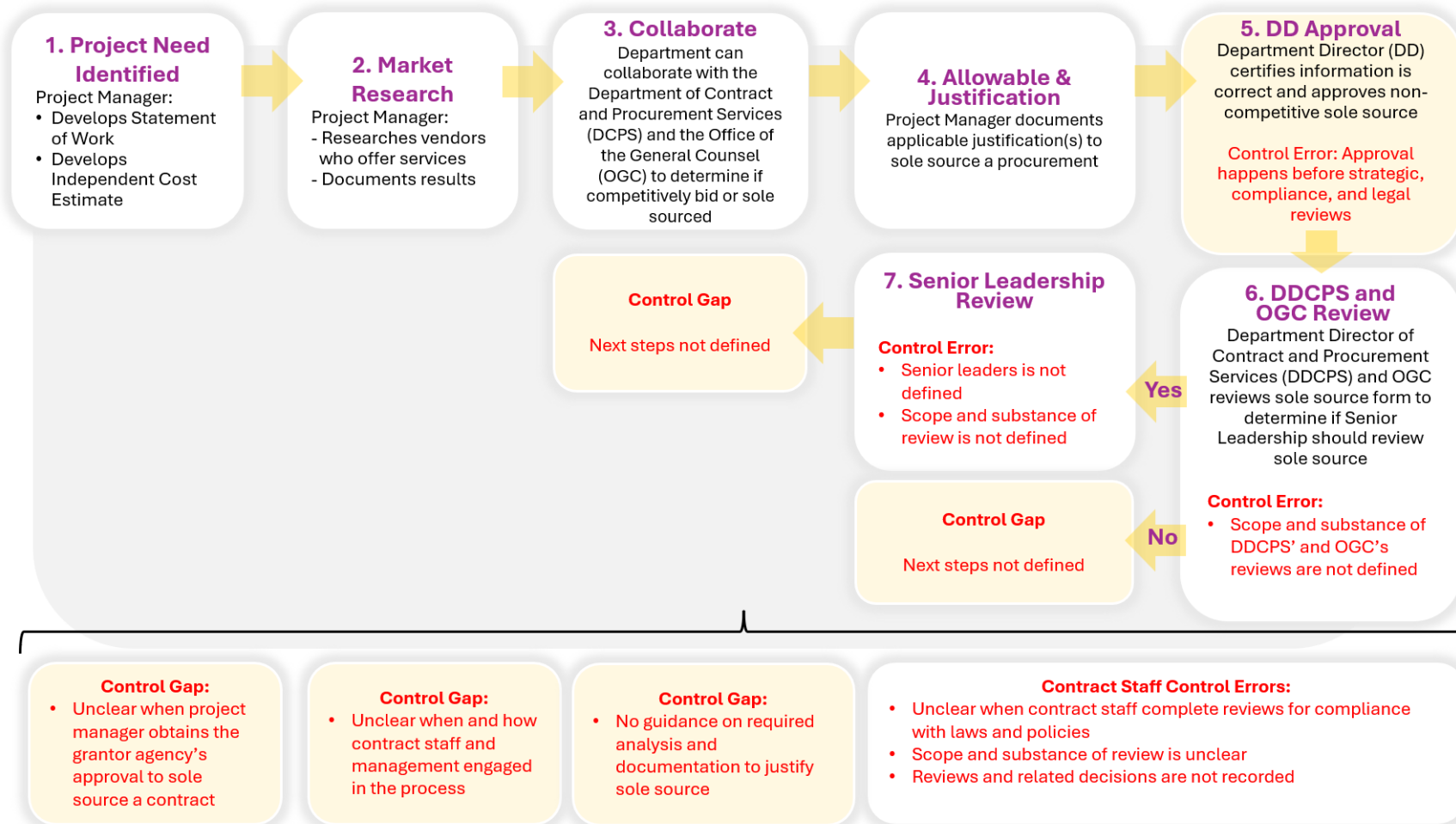
The Green Book, officially known as the U.S. Government Accountability Office (GAO) Standards for Internal Control in the Federal Government, outlines the framework for establishing and maintaining effective internal control systems in federal agencies. These standards are also widely referenced by state and local governments and organizations receiving federal funds.

The Green Book is built around five components that together form a strong system of internal controls. They are:

- Control environment – the organizational culture and the foundation for all other components.
- Risk assessment – identifying and analyzing risk to achieve objectives.
- Control activities – actions taken to reduce risk and achieve objectives.
- Information and communication – ensuring relevant information is identified, captured, and communicated.
- Monitoring – ongoing evaluations to make sure controls are in place and working.

We performed an in-depth review of SANDAG's sole source procurement process during the audit period to assess whether control activities are designed effectively and efficiently. In addition, we surveyed key contract and project management staff to assess the consistency of knowledge around sole source procurements. As shown in Figure 3, we identified several design errors and gaps within the process – leadership reviews and approvals are insufficient, with unclear responsibilities and no visibility into what is being assessed at each level. We also identified knowledge gaps within groups responsible for using sole source procurements.

Figure 3 - SANDAG's Sole Source Procurement Process



Source: OIPA generated

Control Gap: There is a gap in the process, i.e. missing internal control such as next process steps are not defined.

Control Error: The process is not adequately designed, i.e. control is in the wrong place, with the wrong person, and/or aspects of control are undefined or incorrect.

No Process for Obtaining Funding Agency Approval

According to SANDAG's Sole Source Justification Form, a contract may be sole sourced if the grantor agency providing the federal funding has approved the sole source. However, SANDAG's procedures do not define when or how Project Managers should obtain such approval. Also, there is no formal guidance on required steps for obtaining approvals, including timing, level of authority required, and necessary documentation.

Approval Captured Before Strategic, Compliance, and Legal Reviews are Completed

SANDAG's sole source process has the Department Director (DD) authorizing the use of a non-competitive process (via the Sole Source Justification Form) prior to reviews by the Department Director of Contracts and Procurement Services (DDCPS), the Office of General Counsel (OGC), and senior leadership. Approval to proceed with a sole source procurement should only occur after all reviews are complete. The additional reviews in the SANDAG's sole source procurement process introduce inefficiencies and reduce the overall effectiveness of the process.

The Sole Source Justification form states that by approving the Sole Source Justification form, the Department Director approves the services can be procured by using a non-competitive solicitation process. No other Agency approval is needed.

SANDAG's policies and procedures do not specify what documentation should be reviewed when determining whether a sole source procurement is justified. Such a determination would be expected to include a review of key items such as the project scope, cost estimates, market research on potential vendors, vendor locations, and a written rationale explaining why sole sourcing is the only viable option for procuring the required services.

As a best practice, the City of San Diego's justification form⁷ is designed to capture evidence that critical reviews occur before the City's Director of Purchasing and Contracting approves and certifies the sole source procurement. Key items are:

- Department Director's justification request.
- Cost/Market analysis.
- Purchasing and contracting due diligence checklist.

Unclear Roles and Responsibilities for Contract Analysts and Managers

There are control gaps and design errors in the sole source process with respect to the roles and actions of contract staff and management.

- When and how Contract Analysts and management are assigned to a procurement is unclear.

⁷ See Appendix E – Example: City of San Diego's Sole Source Request and Certification Form.

- The criteria used by Contract Analysts to evaluate sole source justifications are undefined, as are the steps taken to ensure the sole source is allowable and appropriately justified.
- Reviews conducted by Contract Analysts, including their findings and conclusions, are not documented.
- Supervisory reviews, approvals, and related decisions by Contract Managers are also not identified or documented.

Confusion on the Scope, Substance, and Sequence of Leadership Reviews

The process requires the DDCPS and OGC to evaluate if senior leadership should review the sole source. We found:

- The purpose, substance, and scope⁸ of the DDCPS' and senior leadership's review is not defined. While OGC stated its review is to ensure legal sufficiency, the scope and substance of its review is vague in the Procurement Manual. Additionally, OGC's internal review process is not documented.
- The sequence of DDCPS's and OGC's reviews and the subsequent steps are not clearly outlined and occur after the sole source is authorized.
- Senior leadership only needs to review if DDCPS or OGC deem it necessary.
- The positions within "senior leadership" are not defined. Because these positions are undefined, SANDAG cannot ensure reviews and approvals by appropriate senior leadership are documented.
- Next steps after senior leadership review and approval are not defined.

Contract and Project Management Staff Lack Knowledge About Their Responsibilities in the Sole Source Procurement Process

We surveyed 10 Contract Analysts⁹ and 10 Project Managers to assess their knowledge and understanding of sole source laws and regulations, and SANDAG's related policies and procedures. We found:

- Contract Analysts did not consistently understand their responsibility to confirm the funding sources for sole source procurements.
 - 4 Contract Analysts stated it was part of their job duties.
 - 3 Contract Analysts stated it was the Project Managers' responsibility.
 - 1 Contract Analyst stated it was both the Contract Analysts' and Project Managers' responsibility.

⁸ The scope of the review is the objective and parameters of the evaluation. The substance refers to the core content, evidence, and rationale being evaluated.

⁹ Only 8 of 10 Contract Analysts responded to OIPA's survey.

Not all justifications are allowable for every funding source. For example, the *economy and efficiency* justification applies only to local funding sources. As a result, there is an increased risk that Contract Analysts will not reconcile the justification selected to the funding source and corresponding allowability in all cases.

- Project Managers did not consistently understand the policies and procedures governing the rationale that must be provided when justifying the use of the sole source procurement method for contracts. Without a clear understanding of the required rationale, Project Managers may submit inconsistent or incomplete justifications for sole source procurements.
 - 2 Project Managers cited they followed Board Policy 024.
 - 1 Project Manager cited they followed 'PM Resources' page on SharePoint.
 - 1 Project Manager cited SANDAG's Procurement Manual.
 - 5 Project Managers cited no awareness of applicable laws and policy.
- Project Managers were unable to recall the meaning of "failure to plan" and "lack of advanced planning", leading to inconsistent application of policies. A lack of understanding of these terms increases the risk of non-compliance with FTA regulations, potentially jeopardizing SANDAG's adherence to Federal guidelines.

The first step in the Sole Source Justification Form is for the Project Manager to affirm that the need for a sole source is not due to lack of planning or concerns about funding.

SANDAG's Procurement Manual requires Project Managers to justify the use of the sole source procurement method in writing based on one or more of the allowable justifications.

FTA Circular 4220.1F, Chapter VI, Section 3.i(2)(a) states that less than full and open competition cannot be justified based on a lack of advance planning, and SANDAG's Sole Source Justification Form requires staff to affirm the need for a sole source procurement is not due to a failure to plan or a lack of advanced planning.

These design errors and process gaps demonstrate a weak and ineffective control environment in the Agency's contracting and procurement function. As such, this environment can cause a late identification of contracting issues, inefficiencies in the procurement process, inconsistent or incomplete reviews/authorizations, a lack of necessary contract and procurement documentation, and an overall lack of accountability and transparency. Further, there is an increased risk of non-compliant contracts that may subject the Agency to legal challenges, the possibility of procurement decisions being questioned or reversed due to a lack of proper

justification or approval, and potential reputational damage to SANDAG due to perceived or actual failures in the procurement process.

RECOMMENDATIONS

1. Evaluate if the Agency's approval and review process provides an appropriate level of control. For example, the DDCPS is the senior management contracting and procurement expert and is responsible for contracting and procurement oversight. Additionally, the CEO is responsible for the Agency's overall operations. The Agency should consider approvals levels based upon criteria such as dollar volume and project risk level – for example the DDCPS approves all sole source procurements, and the DDCPS and CEO both approve all high dollar and high-risk projects.
2. Review and update policies and procedures to:
 - define process for obtaining and documenting required grantor permissions to sole source contracts.
 - define staff and management responsibilities (including OGC) and when they are engaged in the sole source process.
 - define the scope and substance and document each level of review performed and required documentation from each review.
 - define the sequence of reviews and approvals to ensure strategic, compliance, and legal reviews occur before approval, and eliminate the possibility of approving a sole source before all appropriate reviews are completed.
 - evaluate and assign the appropriate level of Agency approval based upon dollar amount and project risk.
 - implement steps and/or controls where gaps in the process were identified.
3. Once policies and procedures have been updated, provide training to staff to ensure they understand their roles and responsibilities within the sole source procurement process. Periodically provide refreshers and evaluate staff's retention.
4. Annual performance reviews for contracting staff and Project Managers should include expectations to demonstrate their knowledge and execution of their contract responsibilities with adequate professional care to ensure accuracy, completeness, and compliance.

FINDING III – PATTERNS OF SOLE SOURCE AWARDS RAISE CONCERNS ABOUT PREFERENTIAL TREATMENT, OVERSIGHT, COMPLIANCE, AND OVERUSE OF SOLE SOURCE PROCUREMENTS

Summary

The Green Book, as previously referenced, outlines the framework for establishing and maintaining effective internal control systems in federal agencies. These standards are also widely referenced by state and local governments and organizations receiving federal funds.

The Green Book is built around five components that together form a strong system of internal controls. They are:

- Control environment – the organizational culture and the foundation for all other components.
- Risk assessment – identifying and analyzing risk to achieve objectives.
- Control activities – actions taken to reduce risk and achieve objectives.
- Information and communication – ensuring relevant information is identified, captured, and communicated.
- Monitoring – ongoing evaluations to make sure controls are in place and working.

We performed a review of SANDAG's control environment over sole source contracts and amendments to ensure controls were in place to identify and reduce risk, ensure compliance with laws and policies, capture reliable, relevant information, and perform evaluations to ensure controls are working as intended.

We also conducted data analytics to identify the total number of sole source contracts during the audit period and assess the number of sole source contracts procured by Project Managers and Contract Analysts. For any Contract Analyst found to be performing significantly more sole source contracts than peers, we also evaluated if the rationale for awarding the contracts by sole source was allowable and justified.

We found significant internal control gaps in the sole source process resulting in a higher number of contracts awarded without competitive bidding. Additionally, the Agency does not have the ability to capture key data to assess the use and appropriateness of sole source contracts. Also, OIPA identified concerns with staff's use of the sole source process and the potential for preferential treatment of certain vendors.

Volume of Contracts Awarded by Sole Source Is Significantly Higher than Expected

From July 1, 2022 to December 30, 2023, SANDAG had 1,389 contracts overall¹⁰. Of those, SANDAG executed 245 sole source contracts – 124 new and 121 amendments, representing about 18 percent of all contracts processed. This is significantly higher than expected for a process intended to be used only as an exception. See Table 2, for the total contracts by procurement method in CMS.

Table 2 - Total Procurements by Procurement Award Method from July 1, 2022 to December 30, 2023 in CMS

	Procurement Method			
	Competitively Bid Contracts	Sole Source Contracts	% of Sole Source Contracts	Total Contracts
New Contracts	671	124	16%	795
Amendments	473	121	20%	594
TOTAL	1,144	245		1,389

Source: CMS

Without a target to work towards, SANDAG cannot evaluate if the number of contracts awarded by sole source is aligned to management and Board of Directors expectations. The volume of contracts awarded by sole source increases the risk of SANDAG appearing to favor some vendors or forgoing the competitive bidding process.

Governance Over Data Tracked in SANDAG Systems

SANDAG does not consistently capture the data needed to perform meaningful analysis of the sole source process. We found:

- CMS does not require the *Amendment Effective Date* field to be updated. As a result, OIPA cannot identify the total count and dollar value of amendments processed through CMS. Undefined contract types and methods in SANDAG's policies result in a lack of contract standardization over how contracts are used and managed.
- CMS shows SANDAG awarded 39 different types of contracts from July 1, 2022 to December 31, 2023. However, some of the contract types were not found in SANDAG's Procurement Manual, others are found but are not defined in the manual. OIPA cannot quantify the number of contracts by contract type which were awarded by sole source procurement record.

¹⁰ OIPA's testing was limited due to SANDAG's inability to obtain contract and sole source information from its ERP system from January to June 2024.

- ERP does not track the contract type (i.e. amendment), or procurement method, (i.e. competitive or sole source), or assigned Project Managers and Contract Analysts. As a result, OIPA could not identify the total dollar value of sole source contracts and amendments from January to June 2024 or conduct data analytics to assess staff usage of sole sourcing. This is an audit scope limitation, see Appendix A.
- OIPA identified 245 sole source contracts reported in CMS. However, the procurement method field in CMS is not mandatory and allows for values beyond *competitively bid* and *sole source*. OIPA could not ensure that all sole source contracts from July 2022 to December 2023 were captured. This is an *audit scope limitation*, see Appendix A.

Concerns of Preferential Treatment Among Vendors

From July 2022 to December 2023, there were 62 Project Managers assigned to at least one sole source contract in CMS. OIPA assessed whether SANDAG staff disproportionately awarded sole source contracts to specific vendors.

Of the 62 Project Managers, there were 12 who processed four or more sole source contracts. Among them, four Project Managers repeatedly awarded contracts to AECOM, HNTB, and Kimley-Horn, raising concerns about preferential treatment and a lack of competition among vendors.

We also judgmentally selected 19 contracts to assess if the Project Manager's rationale for using sole source is allowable and justified. All 19 contracts cited economy or efficiency as one of their justifications. This finding suggests that sole source procurements may be standard practice, rather than a limited exception.

Based upon the earlier survey of Contract Analysts and Project Managers, the overuse of economy and efficiency could also be tied to a lack of understanding of regulatory requirements and internal procurement policies.

Sole Source Contracts Processed by Contract Analysts

From July 2022 to December 2023, there were 21 Contract Analysts assigned to at least one sole source contract in CMS. OIPA reviewed a sample of contracts and identified the following problems:

Sole Source Contract Awarded Based on Vendor Recommendation Without Competitive Review

A vendor, AECOM, requested that its subconsultant, Chen Ryan (CR) Associates, assume a future project contract, despite CR Associates not having been awarded an A&E On-Call contract. SANDAG awarded the contract by sole source, and without conducting a formal qualification review, obtaining an updated cost proposal, or preparing a new Independent Cost Estimate. AECOM remained on the project as a subconsultant.

Retroactive and Noncompetitive Agreements

SANDAG awarded Kimley-Horn four sole source contracts for two bikeway projects after the expiration of its A&E On-Call contract. The expired contracts stated “Consultant shall not be paid for work performed after the termination date. Work performed before the start date or after the termination date of a task order or task order amendment will be treated as non-reimbursable volunteer work by consultant”.

However, retroactive sole source agreements were executed to pay for the work already completed, and subsequent work was awarded through new sole source agreements without updated cost estimates.

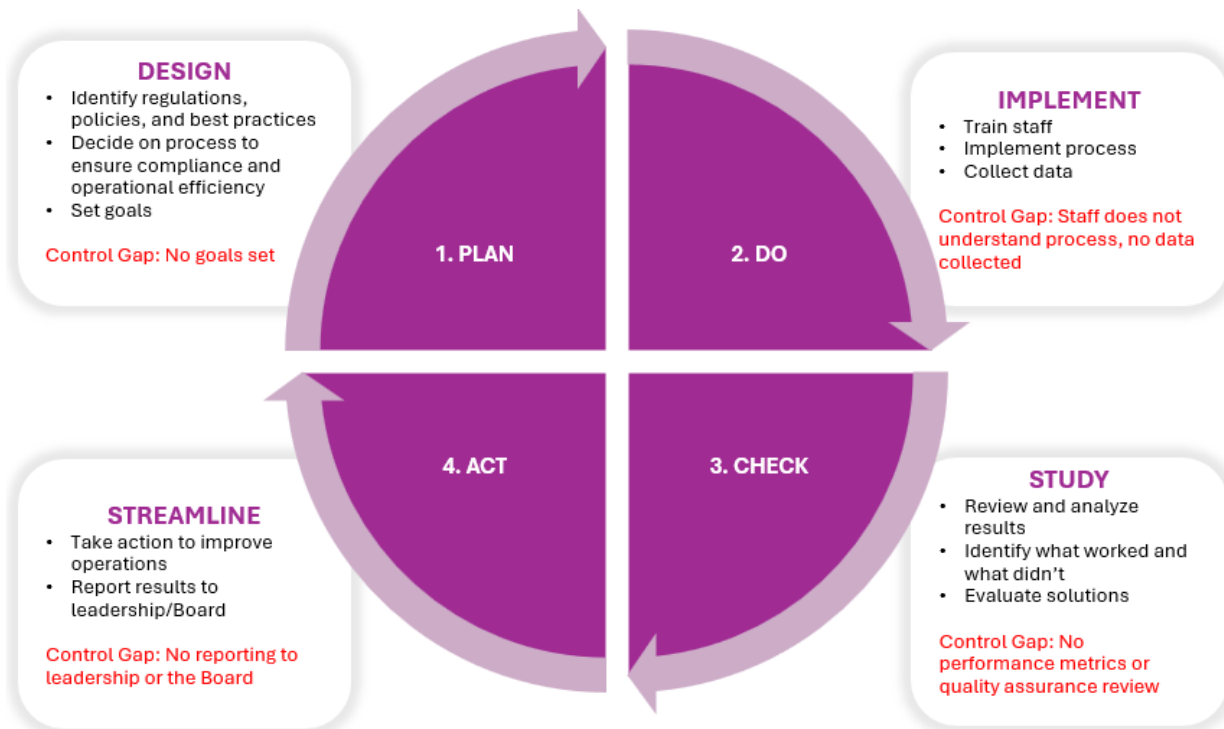
SANDAG Missing Key Performance Indicators, Quarterly Reviews of the Sole Source Process, and Reporting to Leadership and the Board of Directors

A review of the sole source procurement process identified significant gaps in key controls necessary for effective monitoring and continuous improvement to mitigate the risk of vendor favoritism and lack of competition, as illustrated in Figure 4.

SANDAG has not:

- Established reasonable targets to limit the use of sole source procurements.
- Developed performance measures to monitor sole source usage.
- Defined the data and information required to track progress towards established goals.
- Implemented a quality assurance function to periodically assess the accuracy and completeness of the sole source process and identify and recommend opportunities for improvements to the process.
- Instituted regular reporting on sole source procurement performance to executive leadership and the Board of Directors.

Figure 4 – Continuous Improvement Model



Source: OIPA Generated

RECOMMENDATIONS

- Establish and document key controls for ensuring effective monitoring and continuous improvement of the sole source process, including but not limited to:
 - Target limit for sole source contracts.
 - Key performance indicators, reporting procedures, and periodic quality assurance review process to increase compliance and operational efficiency over the sole source process.
 - Periodic evaluations of staff assignments and procurement methods to ensure that sole source procurements are appropriately utilized.
 - Reporting sole source contract metrics to the Board of Directors and executive leadership.
- Identify data needed to track sole source volume and dollar amounts in SANDAG's system(s) responsible for tracking contract data, and ensure system(s) are configured to require necessary data, including but not limited to:
 - Amendment Effective Date
 - Contract type
 - Dollar value of amendments and where they are stored
 - Procurement method

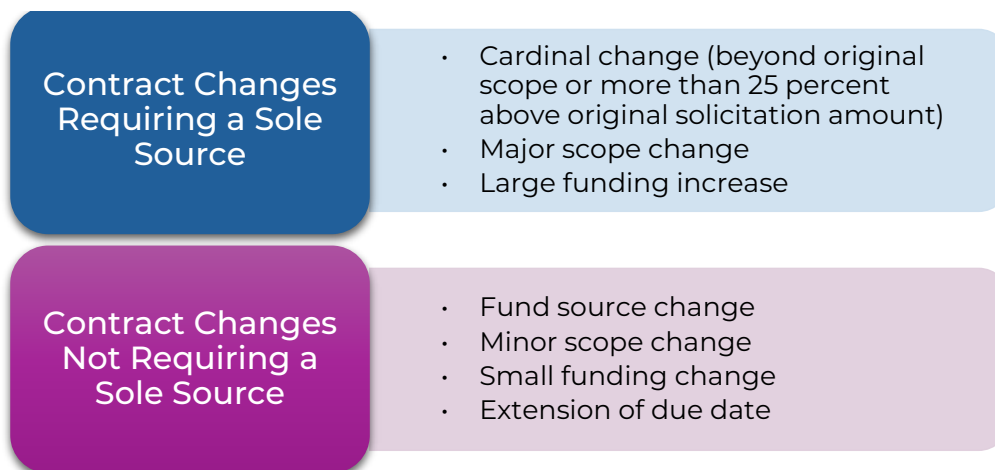
3. Update the Procurement Manual to include and define all possible contract types that are awarded.
4. Reconcile the contract types in CMS with those defined in the Procurement Manual and configure CMS to allow only the contract types defined in the manual.
5. The Board of Directors and the Audit Committee approve the following for inclusion in OIPA's Fiscal Year 25-26 Audit Plan:
 1. Assess planned capital project outcomes for fiscal year 2025-26.
 2. In December 2025, initiate a six month review of sole source justifications to evaluate progress.

FINDING IV – AMENDMENTS NOT PROPERLY SOLE SOURCED, UNDEFINED CONTRACT LIMITS, AND MISALIGNED POLICIES WITH BEST PRACTICES

Summary

Agencies typically use amendments to adjust a contract's timing, funding source, cost, or scope. However, substantial changes to scope or cost – known as “cardinal changes” – require justification and must be awarded as sole source, since the added work or cost was not competitively procured. Figure 5 shows sole source requirements for contract changes.

Figure 5 - Sole Source Requirements for Contract Changes



Source: FTA Circular 4220.1F Chapter I, Section 5.c. and SANDAG's Procurement Manual

We judgmentally selected and reviewed 20 of 204 contract amendments not labeled as sole source in the system, \$27.9M out of \$29.5M in total, to determine if they should have been sole sourced. We also evaluated SANDAG's criteria for sole sourcing amendments.

OIPA found that contract amendments exceeded the monetary threshold requiring a sole source justification but were not treated as a sole source. Also, the parent contracts did not include the required maximum contract value. Finally, SANDAG's threshold for approving contract increases without a competitive process does not consider the impact of significant increases in terms of costs (materiality) and is not aligned with other government best practices.

Amendments Surpassed the Sole Source Monetary Threshold, Yet Were Not Sole Sourced

We found two (2) amendments (totaling \$1.7M) exceeded the 25 percent threshold of the original solicitation value, but were not processed as sole source procurements, as required.

SANDAG stated it was the responsibility of Contract Analysts to verify whether an amendment exceeds the 25 percent threshold. However, a review found Contract Analysts do not document their review, including findings and conclusions. As stated in Findings 1 and 2, we identified gaps in SANDAG's process for reviewing rationale for sole sourcing contracts and amendments.

SANDAG's Procurement Manual states a procurement will be considered a sole source:

"When SANDAG requires an existing contractor to make a change to its contract that is beyond the scope or more than 25% above the dollar value of the original solicitation."

FTA Circular 4220.1F and SANDAG's Procurement Manual define a cardinal change as a major deviation from the original contract's purpose or a revision so extensive that it effectively requires the contractor to perform significantly different work from what was originally contracted.

Contracts Have No Defined Maximum Value

We found the parent contracts for four (4) amendments were missing clearly defined maximum dollar values. Instead, the contracts had, "the total agreement value shall not exceed the aggregate value of executed task orders and amendments issued under this contract" in place of a monetary value. The decision to include this statement, rather than the dollar value, appears to be a management decision, as on-call contracts were signed by executive leadership.

Without a defined contract maximum, a single vendor could receive the full solicitation value through task orders and amendments - without triggering the sole source procurement process. Thus, creating a significant risk of favoritism, overuse and reduced competition.

FTA states that if services were solicited, competed, and awarded using an indefinite-delivery-indefinite-quantity (IDIQ) contract, the solicitation and the contract award are expected to contain both a minimum and maximum quantity that represent the recipient's reasonably foreseeable needs.

SANDAG's Sole Source Threshold Does Not Address Materiality Risk in Approving Changes to Contracts

SANDAG's monetary threshold for requiring amendments to be sole sourced is based on the amendment's percentage change to the original solicitation value, which presents two issues:

1. By basing thresholds on percentages only, it overlooks materiality. For example, 25 percent of \$100,000 is \$25,000, but 10 percent of \$5M is \$500,000. If SANDAG is only reviewing amendments with dollar value changes based on percentages, SANDAG will miss potentially significant impacts.

2. The percentage is calculated from the solicitation value, not the individual contract value. Since solicitation values reflect the total pool for all on-call vendors, this inflates the threshold for identifying substantial changes. Staff stated their policy is based upon the FTA best practice; however, the FTA uses contract value, not solicitation value.

The monetary threshold is set in internal SANDAG policy and appears to have been a management decision.

FTA best practices use *contract* value rather than solicitation value to calculate the value they would consider a cardinal change.

As an example, the Southern California Association of Governments (SCAG) requires¹¹ all contract amendments with a 30 percent or more increase of the *original contract* value be awarded by sole source. For general fund sole source procurements, required approvals then depend on the monetary threshold of the contract value change:

- Less than \$10,000 – approved by Chief Financial Officer (CFO).
- Greater than \$10,000, but less than \$200,000 – approved Executive Director.
- Greater than \$200,000 – approved by SCAG's Regional Council.

RECOMMENDATIONS

1. Update policy to require contract staff evaluate and document the need to sole source contract amendments.
2. Develop a process to periodically review non-sole sourced contract amendments for compliance with sole source thresholds.
3. Evaluate and revise policy to strengthen requirements for when amendments should be awarded by sole source, considering materiality and the original contract value.
4. Update procurement policy to require that contracts include the maximum dollar value, as required.

¹¹ See Appendix F – Example: Southern California Association of Governments' Procurement Policy and Procedure Manual

FINDING V – NO BOARD CONSENT REQUIRED FOR HIGH DOLLAR SOLE SOURCE CONTRACTS

SANDAG's sole source procurement policies do not include clear, sole source specific requirements for Board of Directors' consent. SANDAG's Procurement Manual states:

"Board consent in a public meeting may be required if the procurement is of the type and amount the Board has directed that staff bring it for pre-procurement and/or pre-contracting approval".

The Board set a \$5M threshold for professional services and construction solicitations, and not specifically to sole source procurements.

Other agencies have defined financial thresholds for sole sources that require Board (or equivalent) approval:

- The County of San Diego requires board approval with detailed justifications for sole source procurements over \$100,000.
- The Port of San Diego mandates board authorization for agreements exceeding \$500,000.
- The Southern California Association of Governments (SCAG) requires Regional Council approval for general fund sole source contracts over \$200,000.

The lack of clear Board oversight in the sole source procurement process limits accountability for high-value, non-competitive contracts and reduces transparency. This increases the risk of unchecked spending, perceived or actual favoritism, and non-compliance with procurement best practices.

RECOMMENDATION

1. Work with the Board to develop a specific dollar threshold for requesting Board consent prior to awarding contracts by sole source.

APPENDIX A – AUDIT OBJECTIVES, SCOPE, METHODOLOGY, SCOPE LIMITATION AND GAGAS COMPLIANCE

OBJECTIVES

This audit aims to assess SANDAG's use of sole source contracts, evaluating whether they are properly justified, documented, and aligned with procurement policies. The review focused on the adequacy of internal controls, the consistency of decision-making, and the transparency of the sole source procurement process. The audit objectives were to:

- Assess whether sole source procurements are justified, documented, and in compliance with federal, state, and local laws, as well as SANDAG's policies and procedures.
- Determine whether SANDAG staff are disproportionately awarding sole source contracts to specific vendors and, if so, whether these procurements are valid and compliant.
- Identify whether any procurements that are not explicitly labeled as sole source contracts are, in fact, sole source in nature.

SCOPE

OIPA reviewed sole source procurements from July 1, 2022, through June 30, 2024.

METHODOLOGY

The audit assessed the justifications, documentation, and compliance of sole source procurements with federal and state laws, SANDAG's policies, and best practices. The audit evaluated potential patterns of disproportionate sole sourcing with certain vendors and if the procurements aligned with regulatory requirements. The audit included an evaluation of SANDAG's internal controls, using interviews, document reviews, and process walk-throughs.

We used a combination of random and judgmental sampling to test whether procurements are properly justified, documented, and categorized.

AUDIT SCOPE LIMITATION

OIPA's testing was limited due to SANDAG's inability to obtain contract and sole source information from its ERP system from January to June 2024 and obtain necessary contract data from CMS from July 2022 to December 2023.

ERP does not have the ability to run reports including the total contracts processed by Contract Analyst or Project Manager. ERP also cannot report contract type or procurement method, i.e. contracts awarded by competition or sole source. In some instances, OIPA's scope of testing was limited to the data within CMS, which housed 75 percent of the audit scope period as noted in the report.

CMS does not require staff to input dates or the procurement type (how the contract was awarded, i.e. competitive or sole source) into contract records. CMS also allows

staff to enter values other than “competitive” and “sole source” into the procurement type field. For contract amendments dollar amounts are inconsistently entered into CMS. As a result, we could not verify the total population and amounts of sole source procurements occurring during the audit period.

COMPLIANCE WITH GENERALLY ACCEPTED GOVERNMENT 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX B - PRIOR SOLE SOURCE AUDIT RECOMMENDATIONS

Finding Number	Recommendation	Due Date	Status
Contracts and Procurement Operational and System Control Audit Report (Part I) (Issued Oct. 2022)			
6.1	Provide training to staff on sole source laws, rules, regulations, and processes.	12/31/25	Pending
6.2	Create formal administrative procedures on sole source processes	12/31/24	Implemented
6.3	Update the current sole source justification template to include procurement request details such as contract/task order/amendment number, project manager name, vendor name, etc.	12/31/24	Implemented
6.4	Reorganize contract and sole source records in one centralized location.	9/30/25	Partly Implemented
6.6	Ensure required documents are saved as separate files and labeled accordingly, such as saving a sole source justification form as such.	9/30/25	Pending
7.3	Ensure sufficient procurement planning efforts are being made to avoid sole sources and amendments.	6/30/25	Pending
7.4	Review the sole source policies, processes, and procedures to ensure a clear understanding of allowed sole sources, limitations around sole sources, and the review and approval requirements of sole sources.	9/30/25	Partly Implemented
7.5	Create sole source SOPs for all levels of the approval process.	12/31/24	Implemented
7.6	Create and provide training related to sole sources to include examples of allowable/approvable situations when a sole source is or can be justified and an explanation and examples of when poor planning does not suffice in requesting a sole source procurement.	12/31/25	Pending
7.8	Revise the Procurement Manual to avoid conflicting language, particularly with the contract management of Architecture & Engineering contracts and allowance of sole sources.	9/30/25	Partly Implemented
Contracts and Procurement Operational and System Control Audit Report (Part II) (Issued May 2023)			
2.2	Create clear policies and SOPs to ensure sole sources are limited and are thoroughly reviewed and analyzed to ensure potential risks are mitigated.	9/30/25	Partly Implemented

Finding Number	Recommendation	Due Date	Status
SR 125 Toll Operations Investigation (Issued Mar. 2024)			
3	The Board and the public should be provided with an explanation as to why an RFP process was not initiated a year sooner, and why the Board was instead presented with a request to authorize a sole source contract award on January 12, 2024.	4/12/24	Implemented
5	The Board review SANDAG's sole source awards semi-annually to ensure adherence with public procurement laws and practices.	7/26/24	Implemented
6	The Board should request the Audit Committee and the IPA include SANDAG's sole source procurement process be included in the annual work plan for FY 24-25.	7/11/24	Implemented
Whistleblower Investigation Report on SANDAG's New Tolling Back Office System Implementation (Issue Oct. 2024)			
3	Revise sole source policies and procedures for IT to preclude sole source awards except for demonstrated proprietary, compatibility or unique functionality issues only. An IT system implementation would not qualify.	9/30/25	Partly Implemented

APPENDIX C – SANDAG’S SOLE SOURCE JUSTIFICATION FORM

Project Manager:	Insert: Project Manager
Solicitation Title:	Insert: Solicitation title
Record Number:	Insert: Record number
Project CIP/OWP:	Insert: CIP/OWP number
ICE Amount:	\$Insert: ICE amount

Requirement

Contracting without providing for full and open competition is prohibited unless justified with one or more of the reasons below. This form is required if the Project Manager is requesting approval to follow a noncompetitive procurement process. Project Managers must review the SANDAG Procurement Manual for details regarding noncompetitive procurements, complete this form, route electronically via Adobe for review & approval by the appropriate Department Director, and attach to their ERP requisition.

The following must be answered affirmatively.	
<i>By marking the boxes below, you are affirming that the following statements are true.</i>	
<input type="checkbox"/>	The need for a sole source is not due to a failure to plan or a lack of advanced planning.
<input type="checkbox"/>	The need for a sole source is not due to concerns about the amount of federal assistance available to support the procurement (for example, expiration of federal assistance available for award).

Justification

Review the acceptable justifications for a noncompetitive procurement process listed below. Justifications are sectioned by funding type. Select the reason(s) applicable to the solicitation.

Applicable for <u>all</u> funding sources.	
<i>When SANDAG requires supplies or services available from only one responsible source, and no other supplies or services will satisfy its requirements, SANDAG may make a sole source award. When SANDAG requires an existing contractor to make a change to its contract that is beyond the scope of that contract, SANDAG has made a sole source award that must be justified.</i>	
<input type="checkbox"/>	Authorized by Statute When the sole source is authorized by statute or only one contractor can comply with specific statutory requirements. <i>Pursuant to California Business & Professions Code section 6735, the Engineer of Record must be willing to place his/her seal on plans after modifications are made to those plans so that s/he can assume liability for the plan modifications. The firm identified above is the engineer of record for the Project and additional work is needed on the Project's plans. This sole source is justified because modification/further development of the original plans for this Project requires</i>

Applicable for <u>all</u> funding sources.	
	<i>use of the original engineering firm to comply with the specific statutory requirement in Section 6735.</i>
<input type="checkbox"/>	Funding Agency Approval The grantor agency providing the federal funds has approved the sole source.
<input type="checkbox"/>	Public Interest When SANDAG determines that full and open competition in connection with a particular acquisition is not in the public interest.
<input type="checkbox"/>	Single Bid or Single Proposal In response to an open solicitation only a single bid or proposal was received. SANDAG determined that competition was adequate and that the specifications were not unduly restrictive.
<input type="checkbox"/>	Unique or Innovative Concept The contractor demonstrates a unique or innovative concept or capability not available from another source. Unique or innovative concept means a new, novel, or changed concept, approach, or method that is the product of original thinking, the details of which are kept confidential or are patented or copyrighted and is available to SANDAG only from one source and has not in the past been available to SANDAG from another source.
<input type="checkbox"/>	Unusual and Compelling Urgency/Emergency SANDAG has such an unusual and urgent need for the property or services, including but not limited to a public exigency or emergency, that SANDAG would be seriously injured unless it were permitted to limit the solicitation. SANDAG may also limit the solicitation.

Applicable for <u>Local or FTA</u> funding sources. Note: NOT applicable for FHWA.	
<input type="checkbox"/>	International Arrangements A competitive procurement is precluded by the terms of an international agreement or treaty or the written directions of a foreign government providing reimbursement for the cost of the supplies or services.
<input type="checkbox"/>	National Emergency To maintain a facility, producer, manufacturer, or other supplier available to provide supplies or services in the event of a national emergency or to achieve industrial mobilization.
<input type="checkbox"/>	National Security When the disclosure of SANDAG's needs would compromise the national security.
<input type="checkbox"/>	Protests, Disputes, Claims, Litigation To acquire the services of an expert or neutral person for any current or anticipated protest, dispute, claim, or litigation.

Applicable for <u>Local</u> or <u>FTA</u> funding sources. Note: NOT applicable for FHWA.	
<input type="checkbox"/>	Substantial Duplication Costs (Equipment) In the case of a follow-on contract for the continued development or production of highly specialized equipment and major components thereof, when it is likely that award to another contractor would result in substantial duplication of costs that are not expected to be recovered through competition.
<input type="checkbox"/>	Unacceptable Delay (Equipment) In the case of a follow-on contract for the continued development or production of a highly specialized equipment and major components thereof, when it is likely that award to another contractor would result in unacceptable delays in fulfilling SANDAG's needs.

Applicable for ONLY <u>Local</u> funding sources.	
<input type="checkbox"/>	Unique/Highly Specialized Item/Service Only one contractor/consultant/vendor who can provide unique/highly specialized item or service.
<input type="checkbox"/>	Existing Contractor/Consultant Follow-on Work Economy or efficiency supports award to existing contractor/consultant as a logical follow-on to work already in progress under a competitively awarded contract.
<input type="checkbox"/>	Competitive Procurement Cost Exceeds Cost of Work/Item Cost to prepare for a competitive procurement exceeds the cost of the work or item.
<input type="checkbox"/>	Integral to Existing Equipment The item is an integral repair part or accessory compatible with existing equipment.
<input type="checkbox"/>	Essential to Research or Operational Continuity The item or service is essential in maintaining research or operational continuity.
<input type="checkbox"/>	Existing Specialized Training/Expertise The item/service is one with which staff members who will use the item/service have specialized training and/or expertise and retraining would incur substantial cost in time and/or money.

Explanation

Insert: Explanation for this sole source request to support the justification reason(s) selected.

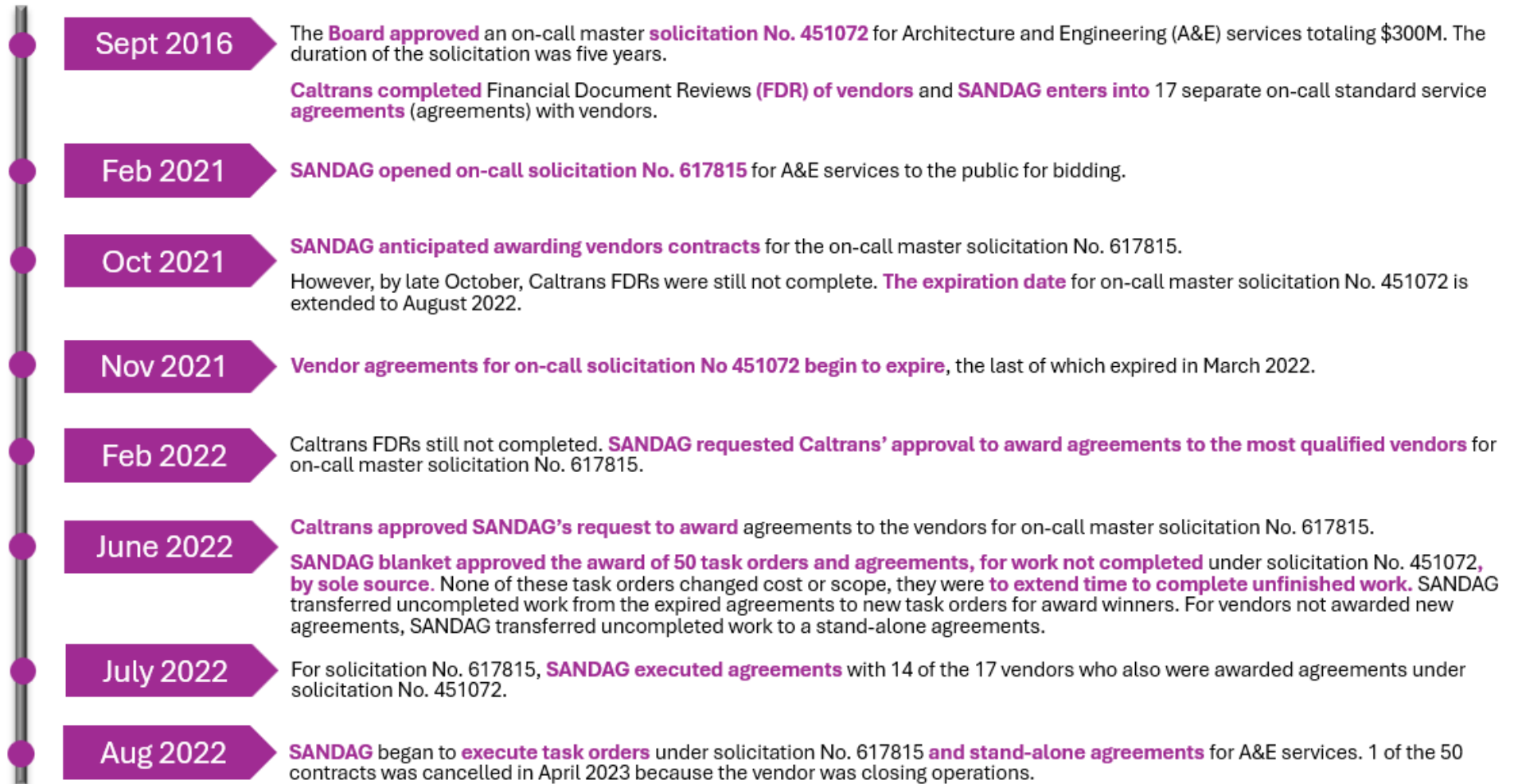
Approval

I certify that the information on this form is correct. Based on the justification provided, I approve that these services be procured using a non-competitive solicitation process.

 [Director Name]
 [Title]

 Date

APPENDIX D – SANDAG’S BLANKET APPROVAL TO AWARD 50 CONTRACTS TO VENDORS BY SOLE SOURCE



Source: OIPA generated based on Sole Source Justification

APPENDIX E – EXAMPLE: CITY OF SAN DIEGO'S SOLE SOURCE REQUEST AND
CERTIFICATION FORMPurchasing and Contracting Department
Sole Source Request and Certification Form

To: Director of Purchasing and Contracting

Cc: Select One

From: Tom Rosales, Interim Deputy Director, WWTD

Date: May 30, 2019

In alignment with the guidance provided in the San Diego Municipal Code section 22.3016, the Purchasing Agent (Director of Purchasing and Contracting) must certify that the award of a sole source contract is necessary by memorializing in writing why strict compliance with a competitive process would be unavailing or would not produce an advantage, and why soliciting bids or proposals would therefore be undesirable, impractical, or impossible.

For consideration, this form must be completed and all required accompanying information must be submitted together, including any related contracts. Failure to do so will result in a delay of approval of the request.

Describe commodity or service(s) to be purchased. Include vendor contact information.

The Wastewater Treatment and Disposal (WWTD) of the Public Utilities Department (PUD) requests certification of Emerson Process Management™ (Emerson) for continuing to provide control systems, integration, technical support, and cybersecurity related products and services to upgrade and expand existing Wastewater facilities, and properly maintain the Clean Water Operations Management Network (COMNET) to assure reliable operation.

The main objectives of this sole source request are:

- a. Allow the City to issue several Task Orders (TOs), each with own specific scope of work and budget, on an "As Needed" basis.
- b. Allow the City to issue individual TOs to Emerson to address COMNET upgrade needs at various existing Wastewater facilities.
- c. Allow the City to issue a TO to Emerson to fill the gaps related to monitoring and control functions that may exist between various Pure Water Program projects.

On behalf of PUD, COMNET was designed and implemented by Emerson, starting in 1995 and continuing for several years thereafter, for approximately \$121 million, with additional investments made on new facilities and system expansion and upgrades made since the original implementation, using Emerson's proprietary Distributed Control System (DCS). Currently, Emerson's DCS is in use at a multitude of government and private water and wastewater facilities, refineries, and power plants worldwide. Furthermore, Emerson has maintained an engineering and system support center here in San Diego for over 20 years. City's investment in COMNET to date is estimated at over \$200 million.

Emerson is the sole provider of the hardware and software components of the DCS currently used within COMNET. Continued use of Emerson's DCS products and technical support and services will allow seamless and cost-effective integration of new facilities, as well as facilitating the system upgrades currently much needed at the existing Wastewater facilities. Extending the Emerson DCS will mitigate risks in both capital and operational costs for the needed work and continue the City's Operations and Maintenance efficiency goals. Projected cost for the 10-year contract is approximately \$30 million.

Emerson Representative Information:

Jeff Johnson
Sr Account Executive
jeffrey.johnson@emerson.com
(951) 826-3229

Sole Source Request and Certification
Rev. July 11, 2018
OCA Document No. 1772513

Justification

1. This product or service is available from only one supplier and meets at least one of the following criteria (please check all that are applicable):

- ☒ *One-of-a-kind/Compatibility*
- a. Required by Warranty: the product matches existing equipment, infrastructure and is required by warranty. **(A letter from the provider which supports this claim must be provided.)**
- b. Goods and Services:
- i. the good has no competitive product or alternative on the market.
- ii. the service requires a special skill, ability, or expertise linked to the current project that cannot be provided by another supplier.

(Documentation in support of either of the above claims must be provided by the requesting department.)

- ☐ *City Standards*

The product or service complies with established, existing City standards.

- ☐ *Replacement*

The product or service is the only compatible replacement component that supports a larger system. Or, the services are the only ones that can replace the existing service requirements.

2. Do any of the following situations exist?

- ☐ *Limited Competition*

Department made an attempt to find a second or multiple sources to no avail.

- ☐ *Emergency*

There is an urgent need for the item or service and time does not permit the City to solicit for competitive bids, as in the cases of emergencies as defined under SDMC section 22.3208,. (Delays in solicitation do not satisfy this criteria)

Cost/Market Analysis

Purchasing and Contracting will perform due diligence on each request. If Purchasing and Contracting can find a suitable, cost effective alternative, this request will be denied and that alternative will be pursued after your department has been contacted to discuss the revised determination.

This form does not take the place of an agreement and all sole source requests for a period of one year or longer will require the **submission of an agreement**. The requesting department must submit a purchase requisition and a copy of this certification to Purchasing and Contracting for a Purchase Order to be issued.

Sole Source Request and Certification
Rev. July 11, 2018
OCA Document No. 1772513

PCO Due Diligence (PCO to initial all that apply)

- ☐ Proof of warranty or maintenance requirement for standardized and replacement items confirmed.
- ☒ Vendor/Supplier confirmed submission of justification letter.
- ☐ Market test confirmed that there is no advantage to the City in competing this contracting opportunity to multiple vendors.
- ☐ Emergency verified with the department.
- ☒ Pricing agreement has been reviewed.
- ☒ Purchasing and Contracting has reviewed this request and affirms that this request for a sole source justification is appropriate.

This sole source is approved for:

- ☐ One (1) year from the signature date below.
- ☒ For the entire length of the contract, but not more than five (5) years. *approved by Council*

The length of the contract must be consistent with the sole source approval. A sole source request must be submitted and approved by the Purchasing and Contracting Director prior to the award of each new contract and prior to each extension of an existing contract that was not contemplated in the initial contract term.

☐ After reviewing the provided information and due diligence, I cannot recommend the approval of this request.

Purchasing and Contracting Director Review

I certify that strict compliance with a competitive process would be unavailing or would not produce an advantage, and that soliciting bids or proposals would be therefore undesirable, impracticable or impossible. My approval is contingent on the information provided in this form.

- ☒ In accordance with SDMC §22.3016, this request is approved.
- ☐ Based on the information provided and due diligence recommendation of staff, this request is denied.



Kristina Peralta, Director, Purchasing and Contracting

14 June 2019

Date

Sole Source Request and Certification
Rev. July 11, 2018
OCA Document No. 1772513

APPENDIX F – EXAMPLE: SOUTHERN CALIFORNIA ASSOCIATION OF GOVERNMENTS' PROCUREMENT POLICY AND PROCEDURE MANUAL

SCAG Procurement Policy & Procedures Manual

3.3. Approval Authority Thresholds and Processing Time

- A. Table 1 below provides SCAG's approval authority thresholds and average processing time for each Procurement Method, and for all funding sources excluding the General Fund (see Table 2 below for General Fund).

Table 1 - Approval Authority Thresholds and Average Processing Time			
Procurement Method	Threshold	Approval Authority	Processing Time (in weeks)
Formal – 1	\$200,000 or greater (subject to Audit if \$250K or greater)	Regional Council	15 (from receipt of final Scope of work to Notice-to-Proceed)
Formal – 2	\$50,000 but < \$200,000	CFO (or designee)	11 ²
Informal	>\$10,000 but < \$50,000	CFO (or designee)	2 – 7
Micro/Non-Competitive	\$1 - \$10,000	Contracts Manager	2
Sole Source - 1	\$200,000 or greater (subject to Audit if \$250K or greater)	CFO/Regional Council	2 – 6
Sole Source - 2	> \$10,000 but < \$200,000	CFO (or designee)	2
Amendment - 1	\$75,000 or greater (subject to Audit if the amendment increases the contract's value to \$250K or greater)	Regional Council	2 – 6
Amendment - 2	\$1 but < \$75,000 (subject to Audit if the amendment increases the contract's value to \$250K or greater)	CFO (or designee) if the amendment is 30% or greater of the contract's original value, or increases the contract's value to \$200,000 or greater, then	2

² Note: The 11 weeks typically consists of the following major activities:

1.5 weeks for RFP creation and issuance;
 4.0 weeks for RFP posting;
 3.0 weeks for evaluating proposals and conducting any interviews;
 2.5 weeks for negotiating and executing the final contract.
 11 weeks total anticipated processing time

Add 4 more weeks for contracts \$200K or greater (for Regional Council Approval)

SCAG Procurement Policy & Procedures Manual

Table 1 - Approval Authority Thresholds and Average Processing Time

Procurement Method	Threshold	Approval Authority	Processing Time (in weeks)
		the RC must approve this amendment.	

- B. Agreements (including contracts and purchase orders for goods and services) and related amendments are reported to the SCAG Regional Council. Agreements and amendments not subject to pre-approval by the RC are reported to the RC for informational purposes.
- C. Further, while contract amendments are limited to no more than thirty (30) percent of the original total amount of the contract, any amendment(s) with an individual or aggregate amount of \$75,000 or greater requires Regional Council approval prior to the amendment.
- D. Table 2 below provides SCAG's approval authority thresholds and processing time for each Procurement Method, for purchases funded from the General Fund (see Table 1 above for all other funds).

**Table 2
Approval Authority Thresholds & Average Processing Time Processing for General Fund
Contracts**

Procurement Method	Threshold	Approval Authority	Processing Time (in weeks)
Formal	\$50,000 or greater (subject to Audit if \$250K or greater)	Regional Council	11
Sole Source - 1	Contracts \$10,000 or less (Micro Purchases regardless of funding source)	Chief Financial Officer	1 - 4
Sole Source - 2	Contracts > 10,000 < \$200,000	Executive Director (any amendment that increases the contract's value to \$200,000 or greater must be approved by the RC)	2 - 11
Sole Source - 3	\$200,000 or greater (subject to Audit if \$250K or greater)	Regional Council	2 - 15
Amendment	\$1 but < \$75,000 If the amendment is 30% or greater of the contract's original value, or increases the contract's value to \$200,000 or greater, then the RC must approve this amendment. The amendment is also	Regional Council	2 - 6

SCAG Procurement Policy & Procedures Manual

4. Time extensions. Each contract or PO should be re-solicited prior to a total of thirty-six (36) months with the same consultant including any amendment or options to extend the contract's term, unless SCAG's Chief Financial Officer provides written authorization for a longer period for the initial contract or an amendment to an existing contract.
 5. Changing incremental funding (on the Funding Exhibit).
- E. Contract or PO amendments may also be necessary at the beginning of each fiscal year, upon approval of the new fiscal year budget, to advise the consultant of the following:
1. To continue work
 2. Project Number
 3. Term of the contract
 4. Document any funding change
 5. Any other contractual change
- F. Excluding Micro Purchases which may be amended up to \$10,000 without regard to any percentage increase limits, contract or PO amendments are limited to no more than thirty (30) percent of the original contract amount. In general, amendments which increase the contract value more than 30% of the original amount are considered a sole source procurement and require sole source justification (see section 7.3 above). An amendment in excess of the 30% of the contract's original value, requires the Regional Council's Approval prior to executing the amendment. Note – Any purchase that was procured INFORMALLY (i.e., originally valued at less than \$50,000), can only be increased up to \$64,999.99 or 30% of the Contract's original value, whichever is less (e.g. if the original contract is \$49,999, it can on be increased up to 30% or \$15K, with the revised value totaling \$64,999). The Regional Council must approve amend such a contract beyond \$64,999. Such amendments must still be processed in accordance with this Policy Manual.
- G. In accordance with a June 14, 2006 Regional Council agenda item 3.1.17, and the Regional Council Policy Manual, Article VIII, Section 1.3 (updated September 2009, pg. 26) any amendment to incorporate additional (similar) scope with an individual or aggregate amount of \$75,000 or greater requires Regional Council approval, before the amendment can be executed. This excludes fiscal year funding amendments. Once the aggregate value of an amendment is \$75,000 or greater or 30% of the contract's original value, whichever is less, any further amendment to the contract's value requires Regional Council approval before it can be executed. Contracts will require the consultant to complete a new Conflict of Interest (COI) Form if the contract is more than 1 year old (as of the date the RC/EAC first went to the Regional Council for Approval or Information) and include this new COI in the Regional Council report. Further, amendments valued between \$5,000 and \$74,999 must be submitted as an **"information item"** on the Regional Council agenda.

Management's Response and Corrective Action Plan



May 12, 2025

Courtney Ruby
Independent Performance Auditor
Office of the Independent Performance

RE: Management Response to the Office of the Independent Performance Auditor's
Performance Audit of SANDAG's Sole Source Procurement Process

Dear Ms. Ruby:

Thank you for the opportunity to respond to the Office of the Independent Performance Auditor's (OIPA's) Sole Source Procurement Process Audit. We appreciate the work you and your team have completed to develop this analysis.

Many of the recommendations are consistent with those from Parts I and II of OIPA's Contracts audit completed in 2022 and 2023 and we have taken important steps since then to implement these actions. As noted in the audit report, the Board of Directors began receiving a semi-annual report on sole source procurements in July 2024; all requests for sole source contracts started to be subject to CEO review around October 2024; and, a revised Procurement Manual, Sole Source Procedures fact sheet, and Roles and Responsibilities in the Contract Lifecycle Framework were released to staff in February 2025.

Also mentioned in the audit report are additional actions that can and should be taken to continue to implement organizational changes that drive accountability, enhance internal controls, and further instill a continuous improvement culture at SANDAG. Attached is management's response to the audit's 19 recommendations.

We look forward to continuing to work with the OIPA to improve processes and practices. Again, thank you for your efforts on this analysis and continued partnership during this journey in being prudent stewards of taxpayer dollars.

Sincerely,

A handwritten signature in black ink, appearing to read "Mario Orso".

Mario Orso
Chief Executive Officer

cc: Members of the Board of Directors
Members of the Audit Committee

Attachment 1 – Management Corrective Action Plan – Sole Source Procurement Process

Sole Source Procurement Process Audit
SANDAG's Corrective Action Plan

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
1	1	For the nine (9) missing contracts, document their absence in the contract file and do not allow future sole source follow-on work for the project.	Management agrees with this recommendation. Information will be added to the nine contract files to: 1) note that certain documentation related to the original competition is missing; and 2) outline the steps that should be taken to ensure appropriate procurement methods will be followed for any future work on those contracts. The project's needs are being assessed, sole source contracts are not anticipated to be used for follow-on work.	Director of Contracts and Procurements Due: 8/31/2025
1	2	Revise the process to document how each contract is awarded (contract history) and ensure contract documentation is clear, comprehensive, complete and readily accessible.	Management agrees with this recommendation. Staff is working on updates to the History of Procurement form to more clearly document different contract milestones, decision points, and related justifications. In addition, the Procurement Manual will be updated to more clearly outline the information to be included in the form, who is responsible for completing the form, and any necessary approvals.	Director of Contracts and Procurements Due: 9/30/2025
1	3	Develop a procedure to identify and document the contract award method for past projects to ensure follow-on work is adequately validated.	Management agrees with this recommendation. The Procurement Manual will be updated to clarify how to identify and document the contract award method used for past projects that are <u>still active</u> so that follow-on work is adequately procured. This update will include information on where to find project records based on	Director of Contracts and Procurements Due: 9/30/2025

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
			the status and timing of the original solicitation (i.e. Contracts Library, ERP, CMS).	
1	4	<p>Create criteria for evaluating if the sole source economy and efficiency justification is reasonable, including but not limited to:</p> <ul style="list-style-type: none"> • Steps to identify if a prior contract was multi-phase. • Steps to identify if the new contract's scope of work was included in the original, competitively awarded contract. 	<p>Management agrees with this recommendation.</p> <p>Staff is working on an update to the Sole Source Procedures that will include a Check List with criteria to help evaluate if the sole source economy and efficiency as well as safety justification is reasonable; including whether the prior contract was multi-phase and if the sole source scope was included in the original, competitively awarded contract.</p>	<p>Director of Contracts and Procurements</p> <p>Due: 9/30/2025</p>
1	5	<p>Establish a protocol for policy exceptions for unforeseen circumstances. Such a policy should be comprehensive and include, but not be limited to:</p> <ul style="list-style-type: none"> • Define exception and authority for such an exception. • Define any limitations related to the exception: <ul style="list-style-type: none"> o For example, can it be applied to multiple contracts in the form of a blanket approval? Or only to a single contract? Can it include future contract actions, such as amendments for time, costs, and scope? • Include documentation and analysis requirements to justify appropriate application. 	<p>Management agrees with this recommendation.</p> <p>Management will review best practices to establish a comprehensive protocol for policy exceptions for unforeseen circumstances; including defining the appropriate authority, circumstances, justification, and limitations for such exceptions.</p>	<p>Director of Contracts and Procurements / Office of General Counsel</p> <p>Due: 12/31/2025</p>

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
2	1	Evaluate if the Agency's approval and review process provides an appropriate level of control. For example, the DDCPS is the senior management contracting and procurement expert and is responsible for contracting and procurement oversight. Additionally, the CEO is responsible for the Agency's overall operations. The Agency should consider approvals levels based upon criteria such as dollar volume and project risk level – for example the DDCPS approves all sole source procurements, and the DDCPS and CEO both approve all high dollar and high-risk projects.	<p>Management agrees with this recommendation.</p> <p>A review of the agency's <i>Delegation of Authority by Chief Executive Officer Policy</i> is currently underway that will include an evaluation of current contract and procurement approvals to ensure an appropriate level of control. This review will also consider how dollar, volume, risk level or other appropriate metrics should be factored into the review/approval process.</p>	<p>Director of Internal Controls / Office of General Counsel</p> <p>Due: 12/31/2025</p>
2	2	<p>Review and update policies and procedures to:</p> <ul style="list-style-type: none"> • Define process for obtaining and documenting required grantor permissions to sole source contracts. • Define staff and management responsibilities (including OGC) and when they are engaged in the sole source process. • Define the scope and substance and document each level of review performed and required documentation from each review. • Define the sequence of reviews and approvals to ensure strategic, compliance, and legal reviews occur before approval, and eliminate the possibility of approving a sole source before all appropriate reviews are completed. 	<p>Management agrees with this recommendation.</p> <p>Staff is working on updates to the Sole Source Procedures that will further clarify processes and responsibilities related to grantor permissions, staff/management roles, documentation and reviews, and approvals. In addition, a review of the agency's <i>Delegation of Authority by Chief Executive Officer Policy</i> is currently underway that will include an evaluation of current contract and procurement approvals to ensure appropriate levels of control throughout the process (Finding 2.1).</p>	<p>Director of Contracts and Procurements / Director of Internal Controls</p> <p>Due: Sole Source Procedures: 9/30/2025</p> <p>Policy: 12/31/2025</p>

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
		<ul style="list-style-type: none"> Evaluate and assign the appropriate level of Agency approval based upon dollar amount and project risk. Implement steps and/or controls where gaps in the process were identified. 		
2	3	Once policies and procedures have been updated, provide training to staff to ensure they understand their roles and responsibilities within the sole source procurement process. Periodically provide refreshers and evaluate staff's retention.	Management agrees with this recommendation. Training on the updated Sole Source Procedures will be provided on a regular basis to ensure that staff understand their roles and responsibilities within the procurement process.	Director of Contracts and Procurements / Director of Human Resources / Director of Program/Project Management Due: 4/30/2026
2	4	Annual performance reviews for contracting staff and Project Managers should include expectations to demonstrate their knowledge and execution of their contract responsibilities with adequate professional care to ensure accuracy, completeness, and compliance.	Management agrees with this recommendation. Annual performance reviews for contracting staff and Project Managers will consider their knowledge and execution of their contract responsibilities with adequate professional care to ensure accuracy, completeness, and compliance	Director of Contracts and Procurements / Director of Human Resources / Director of Program/Project Management Due: 12/31/2025

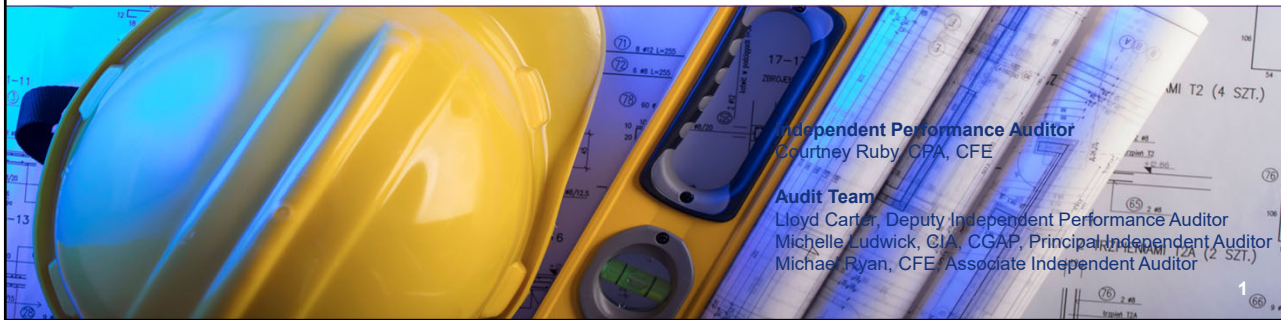
Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
3	1	<p>Establish and document key controls for ensuring effective monitoring and continuous improvement of the sole source process, including but not limited to:</p> <ul style="list-style-type: none"> • Target limit for sole source contracts. • Key performance indicators, reporting procedures, and periodic quality assurance review process to increase compliance and operational efficiency over the sole source process. • Periodic evaluations of staff assignments and procurement methods to ensure that sole source procurements are appropriately utilized. • Reporting sole source contract metrics to the Board of Directors and executive leadership. 	<p>Management agrees with this recommendation.</p> <p>Management will: 1) establish and document key controls for ensuring effective monitoring and continuous improvement of the sole source process; and 2) identify key performance indicators, reporting procedures, and periodic quality assurance review processes to increase compliance and operational efficiency over the sole source process, including periodic evaluations to determine if sole source procurements are being appropriately utilized.</p> <p>Based on a review of best practices of peer agencies and operational needs, management will determine what the appropriate metrics are to monitor and report (in addition to the information currently provided to the Board and executive leadership). Management will initiate a process to review best practices of peer agencies to consider what an appropriate baseline of sole source procurements could be to determine if there are appropriate limits to be established.</p>	<p>Director of Internal Controls / Director of Contracts and Procurements</p> <p>Due: 03/31/2026</p>
3	2	<p>Identify data needed to track sole source volume and dollar amounts in SANDAG's system(s) responsible for tracking contract data, and ensure system(s) are configured to require necessary data, including but not limited to:</p> <ul style="list-style-type: none"> • Amendment Effective Date • Contract type • Dollar value of amendments and where they are stored • Procurement method 	<p>Management agrees with this recommendation.</p> <p>The agency is planning to transition back to CMS to manage solicitation, procurement, and contract award activities in summer 2025. Management will identify the data needed to track sole source volume and dollar amounts in CMS and ensure it is configured to require necessary data for all new contracts, including but not limited to:</p> <ul style="list-style-type: none"> • Amendment Effective Date 	<p>Director of Contracts and Procurements</p> <p>Due: 9/30/2025</p>

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
			<ul style="list-style-type: none"> Contract type Dollar value of amendments and where they are stored Procurement method <p>In the meantime, staff is manually maintaining a list of all sole source contracts (including vendor name, contract number, project name, dollar value, award date, funding source, justification, and approving official) and providing this information to the Board of Directors every six months.</p>	
3	3	Update the Procurement Manual to include and define all possible contract types that are awarded.	<p>Management agrees with this recommendation.</p> <p>The Procurement Manual will be updated to include and define all possible contract types that are awarded.</p>	<p>Director of Contracts and Procurements</p> <p>Due: 9/30/2025</p>
3	4	Reconcile the contract types in CMS with those defined in the Procurement Manual and configure CMS to allow only the contract types defined in the manual.	<p>Management agrees with this recommendation.</p> <p>Management will reconcile the contract types in CMS with those defined in the updated Procurement Manual and configure CMS to allow only the contract types defined in the manual.</p>	<p>Director of Contracts and Procurements</p> <p>Due: 9/30/2025</p>

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
3	5	<p>The Board of Directors and the Audit Committee approve the following for inclusion in OIPAS's Fiscal Year 25-26 Audit Plan:</p> <ol style="list-style-type: none"> 1. Assess planned capital project outcomes for fiscal year 2025-26. 2. In December 2025, initiate a six-month review of sole source justifications to evaluate progress. 	<p>OIPA operates and sets its Audit Plan independently. Major agency changes to policies and processes may take longer than six months to demonstrate results.</p>	<p>Office of the Independent Auditor</p> <p>Due: Based on OIPA input</p>
4	1	<p>Update policy to require contract staff evaluate and document the need to sole source contract amendments.</p>	<p>Management agrees with this recommendation.</p> <p>Project managers are responsible for evaluating and documenting the need to sole source contracts and the Department Director is responsible for certifying this need. The Procurement Manual currently states that "the Contracts staff member assigned to process the request will review the justification to ensure it is complete, contains a detailed explanation, has appropriate documentation, and has been signed by the Director."</p> <p>To further strengthen this process, staff is working on an update to the Sole Source Procedures that will include additional levels of review and recommendation of approval as well as a Check List that contract staff must use to confirm that the justification to sole source is sufficient and appropriate.</p>	<p>Director of Contracts and Procurements</p> <p>Due: 9/30/2025</p>
4	2	<p>Develop a process to periodically review non-sole sourced contract amendments for compliance with sole source thresholds.</p>	<p>Management agrees with this recommendation.</p> <p>Management will develop a process as part of its Internal Controls Program and Project Program Management to periodically review a sample of non-sole sourced</p>	<p>Director of Internal Controls/ Director of Project Program Management</p>

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
			contract amendments to ensure compliance with sole source thresholds.	Due: 03/31/2026
4	3	Evaluate and revise policy to strengthen requirements for when amendments should be awarded by sole source, considering materiality and the original contract value.	Management agrees with this recommendation. Management will review best practices from peer agencies and update policies as needed to strengthen requirements for when amendments should be awarded by sole source, potentially considering materiality and the original contract value.	Director of Contracts and Procurements / Office of General Counsel Due: 12/31/2025
4	4	Update procurement policy to require that contracts include the maximum dollar value, as required.	Management agrees with this recommendation. The Procurement Manual currently states that for IDIQ contracts, "the joint minimum and maximum quantities are expected to be stated in the solicitation and contract." This language will be expanded to clearly state that all contracts must contain a maximum dollar value.	Director of Contracts and Procurements Due: 9/30/2025
5	1	Work with the Board to develop a specific dollar threshold for requesting Board consent prior to awarding contracts by sole source.	Management agrees with this recommendation. The current threshold for requesting Board approval prior to awarding a sole source contract is \$5 million. Management will review this threshold with the Board to determine if any adjustments are needed.	Director of Contracts and Procurements / Office of General Counsel Due: 12/31/2025

Performance Audit of SANDAG's Sole Source Procurement Process



Independent Performance Auditor
Courtney Ruby, CPA, CFE

Audit Team

Lloyd Carter, Deputy Independent Performance Auditor

Michelle Ludwick, CIA, CGAP, Principal Independent Auditor

Michael Ryan, CFE, Associate Independent Auditor

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Agenda

- **Introduction & Background**
- **Finding 1:** Improper Sole Source Justifications, Unnecessary Sole Sourcing, and Unauthorized Policy Exception
- **Finding 2:** Inefficiencies and Risk in the Sole Source Review and Approval Process
- **Finding 3:** Patterns of Sole Source Awards Raise Concerns About Preferential Treatment, Oversight, Compliance and Overuse of Sole Source Procurements
- **Finding 4:** Amendments Not Properly Sole Sourced, Undefined Contract Limits, and Misaligned Policies with Best Practices
- **Finding 5:** No Board Consent Required for High Dollar Sole Source Contracts
- **Questions?**

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Introduction

This audit is part of the Audit Committee and Board-approved FY 2024-2025 OIPA Annual Audit Plan.

- Audit Plan is prioritized based on level of risk.
- Risks are assessed using qualitative and quantitative factors.

SANDAG's sole source procurement process is considered **high risk** due to significant findings in OIPA's Investigation Report on SANDAG's State Route (SR) 125 Toll Operations (March 2024) and SR 125 Toll Operations Companion Investigation (October 2024) and past OIPA contracting audits issued since 2022.

Introduction - Prior OIPA Investigations and Audits

March 2024 – OIPA issued an investigation related to SANDAG's SR 125 Toll Operations and recommended the sole source procurement process be included in OIPA's fiscal year 24/25 audit work plan. This recommendation was approved by the Audit Committee.

October 2024 – OIPA issued a companion investigation related to SR125 and found the \$28M sole source contract award in January 2024 to Deloitte for the replacement SR125 back-office system was not sufficiently scrutinized, justified, or documented, highlighting the significant risk the current sole source practices pose to the Agency.

Introduction - Prior OIPA Investigations and Audits

OIPA issued two prior contracting audits identifying many issues related to procurement processes, including sole source procurements. Issues identified included:

- Misapplication of contracting policy and procedure
- Poor record keeping
- Inconsistent and insufficient departmental guidance
- Staff lacking the knowledge and training to effectively safeguard the Agency from the numerous risks inherent in public procurement

Contracts and Procurement Operational and System Control Audit Part I (October 2022) and (May 2023)

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Introduction

Audit Scope

The audit period from July 1, 2022, to June 30, 2024.

Audit Objectives

- Assess whether sole source procurements are justified, documented, and in compliance with federal and state laws, and SANDAG's policies and procedures.
- Determine whether SANDAG staff are disproportionately awarding sole source contracts to specific vendors and, if so, whether these procurements are valid and compliant.
- Identify whether any procurements not explicitly labeled as sole source contracts are, in fact, sole source in nature.

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Introduction

Methodology

- The audit evaluated potential patterns of disproportionate sole sourcing with certain vendors and if procurements aligned with regulatory requirements.
- The audit evaluated SANDAG's internal controls through interviews, document reviews, and process walk-throughs.
- We used a combination of random and judgmental sampling to test whether procurements are properly justified, documented, and categorized.

Introduction

Scope Limitation

Our testing was limited due to SANDAG's inability to obtain:

- Contract data from CMS (July 2022 - December 2023).
 - System not configured to capture key data including dates, procurement type and award amounts.
- Contract and sole source information from its ERP system (January - June 2024).
 - System unable to run key reports by staff, contract, and procurement method.

Background – Procurement Methodology

SANDAG must follow federal, state, and local regulations and internal procurement policies and procedures to ensure transparency and fairness in the procurement process.

While competitive bidding is the required method for acquiring goods and services, **sole source** procurements are **allowed** in **limited cases** – such as when specialized needs make competition impractical or not in the public's best interest.



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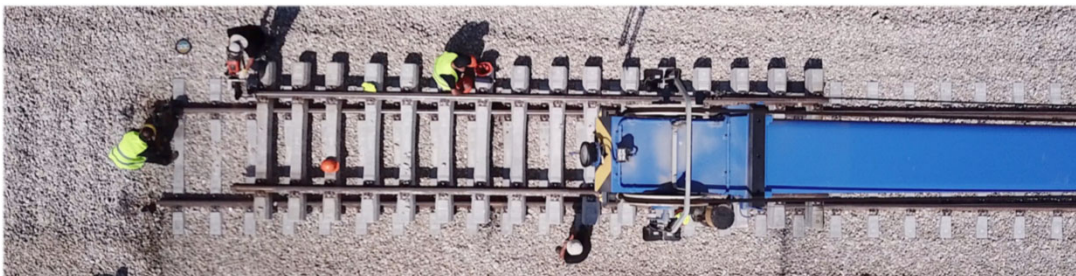
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Background – Procurement Methodology

The FTA and SANDAG **prohibit** a sole source to be justified due to:

- Either a failure to plan or a lack of advanced planning, or
- Concerns about the amount of assistance available



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Background – Allowable Justifications

Federal Transit Administration (FTA) Justifications for Sole Source	Applicable for All Funding Sources: <ul style="list-style-type: none"> Statutory authorization of requirement (engineer of record) Authorized by FTA Public Interest Single bid or single proposal Unique or innovative concept Unusual or compelling urgency
	Applicable for Local or FTA Funding Sources: <ul style="list-style-type: none"> International arrangements National emergency National security Protests, disputes, claims, litigation Substantial duplication costs Unacceptable delay
SANDAG Board Policy Justifications for Sole Source	Applicable for Local Funding Sources Only: <ul style="list-style-type: none"> Unique/highly specialized item/service Existing contractor/consultant follow-on work (economy or efficiency) Competitive procurement exceeds cost of work/item Integral to existing equipment Essential to research or operational continuity Existing specialized training/expertise

Source: FTA Circular 4220.1F, Chapter VI, Section 3.i.(1), Board Policy 016, 023, and 024
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Background – Record Retention System

Timeline of SANDAG's Contract Document Repositories



Source: OIPA generated

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Finding 1 - Improper Sole Source Justifications, Unnecessary Sole Sourcing, and Unauthorized Policy Exception

Summary

To determine if sole sourcing was allowable and properly justified, OIPA reviewed 35 of 139 sole source contracts totaling \$43.8M out of \$74.3M respectively. We found:

- Follow-on work not tied to original competitive awards.
- Unnecessary use of sole sourcing.
- Unauthorized policy exception: Blanket approval of 50 sole source contracts by e-mail.

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Finding 1 - Improper Sole Source Justifications, Unnecessary Sole Sourcing, and Unauthorized Policy Exception

Unnecessary Sole Sourcing of Phased Work

- 1 (totaling \$2M) of 35 contracts was sole sourced even though the work had previously been competitively awarded as part of a multi-phase project.
- Records were not readily available which led staff to process the work as a sole source.
- Unclear project documentation and an incomplete audit trail increases the risk staff cannot verify how past work was awarded to vendors

***“Phased work
previously
competitively
awarded was
unnecessarily sole
sourced.”***

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Finding 1 - Improper Sole Source Justifications, Unnecessary Sole Sourcing, and Unauthorized Policy Exception

11 contracts (totaling \$5.1M) of the 35 reviewed were approved as part of a transfer of work from an expiring on-call master solicitation via a blanket approval for a time only extension.

- It is unclear why work was not finished before the on-call contract expired. The Agency could not sufficiently explain why so much work had to be moved to new contracts.
- All 50 task orders included the same rationale for why the sole source was needed. (OIPA reviewed 11 in our sample, yet the blanket approval was applied to 50)
- SANDAG did not follow its Procurement Manual for processing sole source procurements – a single justification form was used for all 50.
- Of the 11 contracts reviewed, 10 were later amended to add time, costs, or additional work. (Amendments were for time only extension)

“To expedite the transfer of incomplete work from open task orders, SANDAG elected to open approximately 50 new task orders or standard service agreements.”

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Finding 1 - Improper Sole Source Justifications, Unnecessary Sole Sourcing, and Unauthorized Policy Exception

Amendments to Increase Award Amounts for Contracts Previously Awarded by Blanket Approval

Count	Contract	Task Order No.	Vendor	Title	# of Ams	Original Award	Increased Award Amount	Total Award	% Increase
1	882170	3	HNTB Corporation	San Dieguito Double Track Plans, Specifications, and Estimates Phase 1 Project (SDDT)	2	\$1,178,709	\$3,314,896	\$4,493,605	281%
2	882168	3	AECOM Technical Services, Inc.	Buena Vista Lagoon Enhancement Project - Project Refinement and Technical Investigations	3	\$898,830	\$2,054,853	\$2,953,683	229%
3	882168	1	AECOM Technical Services, Inc.	San Dieguito Lagoon W-19 Restoration Project - Phase 5 Construction	4	\$698,540	\$1,256,006	\$1,954,545	180%
4	882176	7	T.Y. Lin International	Palomar Grade Separation 30% PS&E	1	\$1,206,114	\$ -	\$1,206,114	- %
5	882175	2	RailPros, Inc.	LOSSAN Corridor - Program Management & Peer Review Support	2	\$309,671	\$890,308	\$1,199,979	288%
6	1011930	N/A	Arcadis, a California Partnership	Uptown Bikeways - Phase 3 Final Design	1	\$256,492	\$634,323	\$890,815	247%
7	882176	2	T.Y. Lin International	Uptown: Eastern Hillcrest Bikeways Final Design	3	\$386,015	\$319,475	\$705,490	83%
8	1011927	N/A	Kimley-Horn and Associates, Inc.	Orange Bikeway Final Design (North Park Mid-City)	2	\$115,748	\$74,500	\$190,248	64%
9	882169	1	HDR Engineering, Inc.	Construction Support Services - Elvira to Morena Double Track Project	1	\$2,362	\$77,952	\$80,314	3300%
10	882170	5	HNTB Corporation	San Onofre to Pulgas Double Track Phase 2 TO 5	2	\$77,295	\$1,189,250	\$1,266,545	1539%
Totals					21	\$5,129,775	\$9,811,564	\$14,941,338	

Source: CMS and ERP

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Finding 1 – Five Recommendations

Recommendation #1

For the 9 missing contracts, document their absence in the contract file and do not allow future sole source follow-on work for the project.



Recommendation #2

Revise the process to document how each contract is awarded (contract history) and ensure contract documentation is clear, comprehensive, complete and readily accessible.



Recommendation #3

Develop a procedure to identify and document the contract award method for past projects to ensure follow-on work is adequately validated.



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Finding 1 - Recommendations

Recommendation #4

Create criteria for evaluating if the sole source economy and efficiency justification is reasonable, including, but not limited to:

- Steps to identify if a prior contract was multi-phase.
- Steps to identify if the new contracts scope of work was included in the original, competitively awarded contract.



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Finding 1 - Recommendations

Recommendation #5

Establish a protocol for policy exceptions for unforeseen circumstances. Such a policy should be comprehensive and include, but not be limited to:

- Define exception and authority for such an exception.
- Define any limitations related to the exception:
 - For example, can it be applied to multiple contracts in the form of a blanket approval? Or only to a single contract? Can it include future contract actions, such as amendments for time, costs, and scope?
- Include documentation and analysis requirements to justify appropriate application.



Finding 2 - Inefficiencies and Risks in the Sole Source Review and Approval Process

Summary

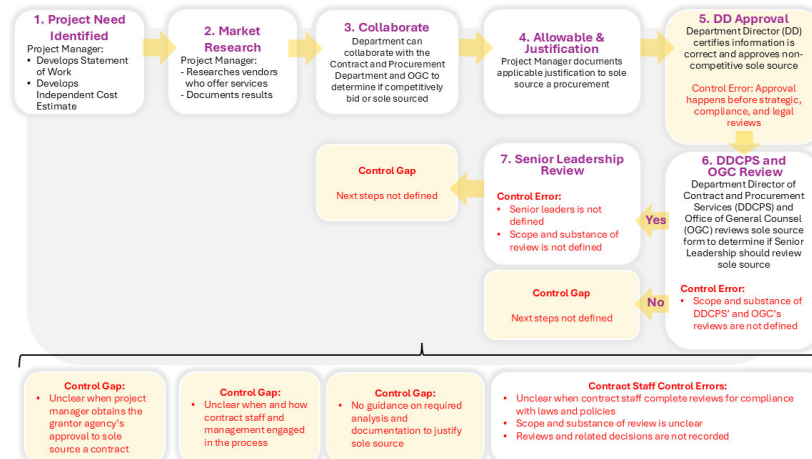
We performed an in-depth review of SANDAG's sole source procurement process during the audit period to assess whether control activities are designed effectively and efficiently. In addition, we surveyed key contract and project management staff to assess the consistency of knowledge around sole source procurements.

We identified design errors and gaps within the process:

- Leadership reviews and approvals are insufficient, with unclear responsibilities and no visibility into what is being assessed at each level.
- Knowledge gaps within groups responsible for using sole source procurements.

Finding 2 - Inefficiencies and Risks in the Sole Source Review and Approval Process

SANDAG's Sole Source Procurement Process



Source: OIPA generated

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Finding 2 - Inefficiencies and Risks in the Sole Source Review and Approval Process

No process for obtaining funding agency approval

- According to SANDAG's Sole Source Justification form, a contract may be sole sourced if the grantor agency providing federal funding has approved the sole source.
- No formal guidance on required steps for obtaining approvals, including timing, level of authority required, and necessary documentation.

“SANDAG's procedures do not define when or how project managers should obtain such approval.”

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Finding 2 - Inefficiencies and Risks in the Sole Source Review and Approval Process

Approval captured before strategic, compliance, and legal reviews are completed.

- SANDAG's Sole Source Justification form states that by approving the form, the Director approves the services can be procured by using a non-competitive solicitation process. No other Agency approval is needed.
- SANDAG's policies and procedures do not specify what documentation should be reviewed when determining whether a sole source procurement is justified.

“SANDAG’s sole source process has the Department Director authorizing use of non-competitive process prior to reviews by the DDCPS, Office of General Counsel, and senior leadership.”

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Finding 2 - Inefficiencies and Risks in the Sole Source Review and Approval Process

Unclear roles and responsibilities for contract analysts and managers

- When and how contract analysts and managers are assigned to a procurement is unclear.
- Criteria used by contract analysts to evaluate sole source justifications are undefined, as are steps taken to ensure the sole source is allowable and justified.
- Reviews conducted by contract analysts, including their findings and conclusions, are not documented.
- Supervisory reviews, approvals, and related decisions by contract managers are also not identified or documented.

“There are control gaps and design errors in the sole source process with respect to the roles and actions of contract staff and management.”

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Finding 2 - Inefficiencies and Risks in the Sole Source Review and Approval Process

Confusion on the scope, substance, and sequence of leadership reviews

- OGC stated its review is to ensure legal sufficiency; scope and substance of review is vague and OGC's internal review process is not documented.
- Sequence of DDCPS's and OGC's reviews and subsequent steps are not clearly outlined and occur after the sole source is authorized.
- Senior leadership must only review if DDCPS/OGC deem necessary.
- Positions within "senior leadership" are not defined. As such, SANDAG cannot ensure reviews and approvals by appropriate senior leadership are documented.
- Next steps after senior leadership review and approval are not defined.

"The purpose, substance, and scope of the DDCPS' and senior leadership's review is not defined."

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Finding 2 - Inefficiencies and Risks in the Sole Source Review and Approval Process

Contract and project management staff lack knowledge about their responsibilities in the sole source procurement process

- Contract analysts surveyed did not consistently understand their responsibility to confirm the funding sources for sole source procurements.
- Project managers did not consistently understand the policies and procedures governing the rationale that must be provided when justifying the use of the sole source procurement method for contracts.
- Project managers were unable to recall the meaning of "failure to plan" and "lack of advanced planning," leading to inconsistent application of policies.

"Design errors and process gaps demonstrate a weak and ineffective control environment in the Agency's contracting and procurement function."

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Finding 2 – Four Recommendations

Recommendation #1

Evaluate if the Agency's approval and review process provides an appropriate level of control. For example, the DDCPS is the senior management contracting and procurement expert and is responsible for contract and procurement oversight. Additionally, the CEO is responsible for the Agency's overall operations. The Agency should consider approval levels based upon criteria such as dollar volume and project risk level – for example, the DDCPS and CEO both approve all high dollar and high-risk projects.



Finding 2 - Recommendations

Recommendation #2

Review and update policies and procedures to:

- define process for obtaining and documenting required grantor permissions to sole source contracts.
- define staff and management responsibilities (including OGC) and when they are engaged in the sole source process.
- define the scope and substance and document each level of review performed and required documentation from each review.
- define the sequence of reviews and approvals to ensure strategic, compliance, and legal reviews occur before approval, and eliminate the possibility of approving a sole source before all appropriate reviews are completed.
- evaluate and assign the appropriate level of Agency approval based upon dollar amount and project risk.
- implement steps and/or controls where gaps in the process were identified.



Finding 2 - Recommendations

Recommendation #3

Once policies and procedures have been updated, provide training to staff to ensure they understand their roles and responsibilities within the sole source procurement process. Periodically provide refreshers and evaluate staff's retention.



Recommendation #4

Annual performance reviews for contracting staff and project managers should include expectations to demonstrate their knowledge and execution of their contract responsibilities with adequate professional care to ensure accuracy, completeness, and compliance.



Finding 3 - Patterns of Sole Source Awards Raise Concerns About Preferential Treatment, Oversight, Compliance, and Overuse

Volume of contracts awarded by sole source is significantly higher than expected

- From July 1, 2022 to December 30, 2023, SANDAG had 1,389 contracts overall.
 - Of these, SANDAG executed 245 sole source contracts – 124 new and 121 amendments, representing about 18% of all contracts processed.
- This number is significantly higher than expected for a process intended to be used only as an exception.
- Without a target to work towards, SANDAG cannot evaluate if the number of contracts awarded by sole source is aligned to management and Board expectations.

“The volume of contracts awarded by sole source increases the risk of SANDAG appearing to favor some vendors or forgo the competitive bidding process.”

Finding 3 - Patterns of Sole Source Awards Raise Concerns About Preferential Treatment, Oversight, Compliance, and Overuse

Governance over data tracked in SANDAG systems

- CMS doesn't require *Amendment Effective Date* field to be updated.
- CMS shows SANDAG awarded 39 different types of contracts from July 1, 2022 to December 31, 2023. However, some of the contract types were not found in SANDAG's Procurement Manual, others are found but are not defined in the manual.
- ERP does not track the contract type (i.e. amendment), or procurement method, (i.e. competitive or sole source), or assigned Project Managers and Contract Analysts.
- OIPA identified 245 sole source contracts reported in CMS. However, the procurement method field in CMS is not mandatory and allows for values beyond *competitively bid* and *sole source*.

“SANDAG does not consistently capture the data needed to perform meaningful analysis of the sole source process.”

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Finding 3 - Patterns of Sole Source Awards Raise Concerns About Preferential Treatment, Oversight, Compliance, and Overuse

Concerns over preferential treatment among vendors

- Of 62 project managers assigned to a sole source contract in CMS between July 2022 and December 2023, 12 processed four or more sole source contracts.
 - Among them, four project managers repeatedly awarded contracts to AECOM, HNTB, and Kimley-Horn, raising concerns about preferential treatment/lack of competition among vendors.
- Of 19 contracts judgmentally selected for assessment, all 19 cited economy or efficiency as one of their justifications.
 - This suggests sole source procurements may be standard practice, rather than a limited exception.
- Both the FTA and SANDAG's Procurement Manual state sole source contracts can't be justified based on failure to plan or lack of advance planning.

“...the overuse of economy and efficiency could be tied to a lack of understanding of regulatory requirements and internal procurement policies.”

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Finding 3 - Patterns of Sole Source Awards Raise Concerns About Preferential Treatment, Oversight, Compliance, and Overuse

OIPA reviewed a sample of sole source contracts from July 2022 and December 2023 and identified the following issues:

- Sole Source Contract Awarded Based on Vendor Recommendation Without Competitive Review: AECOM requested its subcontractor, Chen Ryan, assume future project contract, despite not having been awarded an A&E On-Call contract. SANDAG awarded sole source contract.
- Retroactive and Noncompetitive Agreements: SANDAG awarded Kimley-Horn four sole source contracts (2 retroactive and 2 new agreements for subsequent work) for two bikeway projects after the expiration of its A&E On-Call contract.



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Finding 3 - Patterns of Sole Source Awards Raise Concerns About Preferential Treatment, Oversight, Compliance, and Overuse

SANDAG missing Key Performance Indicators, quarterly reviews of the sole source process, and reporting to leadership and the Board. SANDAG has not:

- Established reasonable targets to limit use of sole source procurements.
- Developed performance measures to monitor sole source usage.
- Defined the data and information required to track progress towards established goals.
- Implemented a quality assurance function to periodically assess the accuracy and completeness of the sole source process and identify and recommend opportunities for improvements to the process.
- Instituted regular reporting on sole source procurement performance to executive leadership and the Board.

“...significant gaps exist in key controls necessary for effective monitoring and continuous improvement to mitigate the risk of vendor favoritism and lack of competition.”

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Finding 3 – Five Recommendations

Recommendation #1

Establish and document key controls for ensuring effective monitoring and continuous improvement of the sole source process, including but not limited to:

- Target limit for sole source contracts.
- Key performance indicators, reporting procedures, and periodic quality assurance review process to increase compliance and operational efficiency over the sole source process.
- Periodic evaluations of staff assignments and procurement methods to ensure that sole source procurements are appropriately utilized.
- Reporting sole source contract metrics to the Board of Directors and executive leadership.



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Finding 3 - Recommendations

Recommendation #2

Identify data needed to track sole source volume and dollar amounts in SANDAG's system(s) responsible for tracking contract data, and ensure system(s) are configured to require necessary data, including but not limited to:

- Amendment Effective Date
- Contract type
- Dollar value of amendments and where they are stored
- Procurement method



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Finding 3 - Recommendations

Recommendation #3

Update the Procurement Manual to include and define all possible contract types that are awarded.



Recommendation #4

Reconcile the contract types in CMS with those defined in the Procurement Manual and configure CMS to allow only the contract types defined in the manual.



Finding 3 - Recommendations

Recommendation #5

The Board of Directors and the Audit Committee approve the following for inclusion in OIPA's Fiscal Year 25-26 Audit Plan:



- Assess planned capital project outcomes for fiscal year 2025-26.
- In December 2025, initiate a six-month review of sole source justifications to evaluate progress.

Finding 4 - Amendments Not Properly Sole Sourced, Undefined Contract Limits, and Misaligned Policies with Best Practices

OIPA judgmentally selected and reviewed 20 of 204 contract amendments not labeled as “sole source” in SANDAG’s systems, \$27.9M out of \$29.5M in total, to determine if they should have been sole sourced.

- 2 amendments (totaling \$1.7M) exceeded the 25% threshold of the original solicitation value, but were not processed as sole source procurements, as required.
- SANDAG stated it was the responsibility of Contract Analysts to verify whether an amendment exceeds the 25% threshold.
- A review found Contract Analysts do not document their review including findings and conclusions.

“Contract amendments surpassed the monetary threshold requiring a sole source justification, but were not treated as a sole source.”

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Finding 4 - Amendments Not Properly Sole Sourced, Undefined Contract Limits, and Misaligned Policies with Best Practices

The parent contracts for 4 amendments were missing clearly defined maximum dollar values

- Instead, the contracts had, “the total agreement value shall not exceed the aggregate value of executed task orders and amendments issued under this contract” in place of a monetary value.
- The decision to include this statement appears to be a management decision, as on-call contracts were signed by executive leadership.
- FTA states if services were solicited, competed, and awarded using an indefinite-delivery-indefinite-quantity (IDIQ) contract, the solicitation and the contract award are expected to contain both a minimum and maximum quantity.

“Without a defined contract maximum, a single vendor could receive the full solicitation value through task orders and amendments - without triggering the sole source process.”

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Finding 4 - Amendments Not Properly Sole Sourced, Undefined Contract Limits, and Misaligned Policies with Best Practices

SANDAG's monetary threshold for requiring amendments to be sole sourced is based on the amendment's percentage change to the original solicitation value, which presents two issues:

- By basing thresholds on percentages only, it overlooks materiality.
- The percentage is calculated from the solicitation value, not the individual contract value.

The monetary threshold is set in internal SANDAG policy and appears to have been a management decision.

“FTA best practices use contract value rather than solicitation value to calculate the value they would consider a cardinal change.”

Finding 4 – Four Recommendations

Recommendation #1

Update policy to require contract staff evaluate and document the need to sole source contract amendments.



Recommendation #2

Develop a process to periodically review non-sole sourced contract amendments for compliance with sole source thresholds.



Finding 4 - Recommendations

Recommendation #3

Evaluate and revise policy to strengthen requirements for when amendments should be awarded by sole source, considering materiality and the original contract value.



Recommendation #4

Update procurement policy to require that contracts include the maximum dollar value, as required.



Finding 5 - No Board Consent Required for High Dollar Sole Source Contracts

SANDAG's sole source procurement policies do not include clear, sole source specific requirements for Board of Directors' consent.

- SANDAG's Procurement Manual states: *"Board consent in a public meeting may be required if the procurement is of the type and amount the Board has directed that staff bring it for pre-procurement and/or pre-contracting approval."*
- The Board set a \$5M threshold for professional services and construction solicitations, and not specifically to sole source procurements.
- Lack of oversight increases the risk of unchecked spending, perceived or actual favoritism, and non-compliance with procurement best practices.

"The lack of clear Board oversight in the sole source procurement process limits accountability for high-value, non-competitive contracts and reduces transparency."

Finding 5 – One Recommendation

Recommendation #1

Work with the Board to develop a specific dollar threshold for requesting Board consent prior to awarding contracts by sole source.



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Questions?

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May 12, 2025

Courtney Ruby
Independent Performance Auditor
Office of the Independent Performance

RE: Management Response to the Office of the Independent Performance Auditor's
Performance Audit of SANDAG's Sole Source Procurement Process

Dear Ms. Ruby:

Thank you for the opportunity to respond to the Office of the Independent Performance Auditor's (OIPA's) Sole Source Procurement Process Audit. We appreciate the work you and your team have completed to develop this analysis.

Many of the recommendations are consistent with those from Parts I and II of OIPA's Contracts audit completed in 2022 and 2023 and we have taken important steps since then to implement these actions. As noted in the audit report, the Board of Directors began receiving a semi-annual report on sole source procurements in July 2024; all requests for sole source contracts started to be subject to CEO review around October 2024; and, a revised Procurement Manual, Sole Source Procedures fact sheet, and Roles and Responsibilities in the Contract Lifecycle Framework were released to staff in February 2025.

Also mentioned in the audit report are additional actions that can and should be taken to continue to implement organizational changes that drive accountability, enhance internal controls, and further instill a continuous improvement culture at SANDAG. Attached is management's response to the audit's 19 recommendations.

We look forward to continuing to work with the OIPA to improve processes and practices. Again, thank you for your efforts on this analysis and continued partnership during this journey 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

cc: Members of the Board of Directors
Members of the Audit Committee

Attachment 1 – Management Corrective Action Plan – Sole Source Procurement Process

Sole Source Procurement Process Audit
SANDAG's Corrective Action Plan

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
1	1	For the nine (9) missing contracts, document their absence in the contract file and do not allow future sole source follow-on work for the project.	<p>Management agrees with this recommendation.</p> <p>Information will be added to the nine contract files to: 1) note that certain documentation related to the original competition is missing; and 2) outline the steps that should be taken to ensure appropriate procurement methods will be followed for any future work on those contracts. The project's needs are being assessed, sole source contracts are not anticipated to be used for follow-on work.</p>	<p>Director of Contracts and Procurements</p> <p>Due: 8/31/2025</p>
1	2	Revise the process to document how each contract is awarded (contract history) and ensure contract documentation is clear, comprehensive, complete and readily accessible.	<p>Management agrees with this recommendation.</p> <p>Staff is working on updates to the History of Procurement form to more clearly document different contract milestones, decision points, and related justifications. In addition, the Procurement Manual will be updated to more clearly outline the information to be included in the form, who is responsible for completing the form, and any necessary approvals.</p>	<p>Director of Contracts and Procurements</p> <p>Due: 9/30/2025</p>
1	3	Develop a procedure to identify and document the contract award method for past projects to ensure follow-on work is adequately validated.	<p>Management agrees with this recommendation.</p> <p>The Procurement Manual will be updated to clarify how to identify and document the contract award method used for past projects that are <u>still active</u> so that follow-on work is adequately procured. This update will include information on where to find project records based on</p>	<p>Director of Contracts and Procurements</p> <p>Due: 9/30/2025</p>

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
			the status and timing of the original solicitation (i.e. Contracts Library, ERP, CMS).	
1	4	<p>Create criteria for evaluating if the sole source economy and efficiency justification is reasonable, including but not limited to:</p> <ul style="list-style-type: none"> • Steps to identify if a prior contract was multi-phase. • Steps to identify if the new contract's scope of work was included in the original, competitively awarded contract. 	<p>Management agrees with this recommendation.</p> <p>Staff is working on an update to the Sole Source Procedures that will include a Check List with criteria to help evaluate if the sole source economy and efficiency as well as safety justification is reasonable; including whether the prior contract was multi-phase and if the sole source scope was included in the original, competitively awarded contract.</p>	<p>Director of Contracts and Procurements</p> <p>Due: 9/30/2025</p>
1	5	<p>Establish a protocol for policy exceptions for unforeseen circumstances. Such a policy should be comprehensive and include, but not be limited to:</p> <ul style="list-style-type: none"> • Define exception and authority for such an exception. • Define any limitations related to the exception: <ul style="list-style-type: none"> o For example, can it be applied to multiple contracts in the form of a blanket approval? Or only to a single contract? Can it include future contract actions, such as amendments for time, costs, and scope? • Include documentation and analysis requirements to justify appropriate application. 	<p>Management agrees with this recommendation.</p> <p>Management will review best practices to establish a comprehensive protocol for policy exceptions for unforeseen circumstances; including defining the appropriate authority, circumstances, justification, and limitations for such exceptions.</p>	<p>Director of Contracts and Procurements / Office of General Counsel</p> <p>Due: 12/31/2025</p>

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
2	1	Evaluate if the Agency's approval and review process provides an appropriate level of control. For example, the DDCPS is the senior management contracting and procurement expert and is responsible for contracting and procurement oversight. Additionally, the CEO is responsible for the Agency's overall operations. The Agency should consider approvals levels based upon criteria such as dollar volume and project risk level – for example the DDCPS approves all sole source procurements, and the DDCPS and CEO both approve all high dollar and high-risk projects.	<p>Management agrees with this recommendation.</p> <p>A review of the agency's <i>Delegation of Authority by Chief Executive Officer Policy</i> is currently underway that will include an evaluation of current contract and procurement approvals to ensure an appropriate level of control. This review will also consider how dollar, volume, risk level or other appropriate metrics should be factored into the review/approval process.</p>	<p>Director of Internal Controls / Office of General Counsel</p> <p>Due: 12/31/2025</p>
2	2	<p>Review and update policies and procedures to:</p> <ul style="list-style-type: none"> • Define process for obtaining and documenting required grantor permissions to sole source contracts. • Define staff and management responsibilities (including OGC) and when they are engaged in the sole source process. • Define the scope and substance and document each level of review performed and required documentation from each review. • Define the sequence of reviews and approvals to ensure strategic, compliance, and legal reviews occur before approval, and eliminate the possibility of approving a sole source before all appropriate reviews are completed. 	<p>Management agrees with this recommendation.</p> <p>Staff is working on updates to the Sole Source Procedures that will further clarify processes and responsibilities related to grantor permissions, staff/management roles, documentation and reviews, and approvals. In addition, a review of the agency's <i>Delegation of Authority by Chief Executive Officer Policy</i> is currently underway that will include an evaluation of current contract and procurement approvals to ensure appropriate levels of control throughout the process (Finding 2.1).</p>	<p>Director of Contracts and Procurements / Director of Internal Controls</p> <p>Due: Sole Source Procedures: 9/30/2025</p> <p>Policy: 12/31/2025</p>

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
		<ul style="list-style-type: none"> Evaluate and assign the appropriate level of Agency approval based upon dollar amount and project risk. Implement steps and/or controls where gaps in the process were identified. 		
2	3	Once policies and procedures have been updated, provide training to staff to ensure they understand their roles and responsibilities within the sole source procurement process. Periodically provide refreshers and evaluate staff's retention.	Management agrees with this recommendation. Training on the updated Sole Source Procedures will be provided on a regular basis to ensure that staff understand their roles and responsibilities within the procurement process.	Director of Contracts and Procurements / Director of Human Resources / Director of Program/Project Management Due: 4/30/2026
2	4	Annual performance reviews for contracting staff and Project Managers should include expectations to demonstrate their knowledge and execution of their contract responsibilities with adequate professional care to ensure accuracy, completeness, and compliance.	Management agrees with this recommendation. Annual performance reviews for contracting staff and Project Managers will consider their knowledge and execution of their contract responsibilities with adequate professional care to ensure accuracy, completeness, and compliance	Director of Contracts and Procurements / Director of Human Resources / Director of Program/Project Management Due: 12/31/2025

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
3	1	<p>Establish and document key controls for ensuring effective monitoring and continuous improvement of the sole source process, including but not limited to:</p> <ul style="list-style-type: none"> • Target limit for sole source contracts. • Key performance indicators, reporting procedures, and periodic quality assurance review process to increase compliance and operational efficiency over the sole source process. • Periodic evaluations of staff assignments and procurement methods to ensure that sole source procurements are appropriately utilized. • Reporting sole source contract metrics to the Board of Directors and executive leadership. 	<p>Management agrees with this recommendation.</p> <p>Management will: 1) establish and document key controls for ensuring effective monitoring and continuous improvement of the sole source process; and 2) identify key performance indicators, reporting procedures, and periodic quality assurance review processes to increase compliance and operational efficiency over the sole source process, including periodic evaluations to determine if sole source procurements are being appropriately utilized.</p> <p>Based on a review of best practices of peer agencies and operational needs, management will determine what the appropriate metrics are to monitor and report (in addition to the information currently provided to the Board and executive leadership). Management will initiate a process to review best practices of peer agencies to consider what an appropriate baseline of sole source procurements could be to determine if there are appropriate limits to be established.</p>	<p>Director of Internal Controls / Director of Contracts and Procurements</p> <p>Due: 03/31/2026</p>
3	2	<p>Identify data needed to track sole source volume and dollar amounts in SANDAG's system(s) responsible for tracking contract data, and ensure system(s) are configured to require necessary data, including but not limited to:</p> <ul style="list-style-type: none"> • Amendment Effective Date • Contract type • Dollar value of amendments and where they are stored • Procurement method 	<p>Management agrees with this recommendation.</p> <p>The agency is planning to transition back to CMS to manage solicitation, procurement, and contract award activities in summer 2025. Management will identify the data needed to track sole source volume and dollar amounts in CMS and ensure it is configured to require necessary data for all new contracts, including but not limited to:</p> <ul style="list-style-type: none"> • Amendment Effective Date 	<p>Director of Contracts and Procurements</p> <p>Due: 9/30/2025</p>

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
			<ul style="list-style-type: none"> Contract type Dollar value of amendments and where they are stored Procurement method <p>In the meantime, staff is manually maintaining a list of all sole source contracts (including vendor name, contract number, project name, dollar value, award date, funding source, justification, and approving official) and providing this information to the Board of Directors every six months.</p>	
3	3	Update the Procurement Manual to include and define all possible contract types that are awarded.	<p>Management agrees with this recommendation.</p> <p>The Procurement Manual will be updated to include and define all possible contract types that are awarded.</p>	<p>Director of Contracts and Procurements</p> <p>Due: 9/30/2025</p>
3	4	Reconcile the contract types in CMS with those defined in the Procurement Manual and configure CMS to allow only the contract types defined in the manual.	<p>Management agrees with this recommendation.</p> <p>Management will reconcile the contract types in CMS with those defined in the updated Procurement Manual and configure CMS to allow only the contract types defined in the manual.</p>	<p>Director of Contracts and Procurements</p> <p>Due: 9/30/2025</p>

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
3	5	<p>The Board of Directors and the Audit Committee approve the following for inclusion in OIPAS's Fiscal Year 25-26 Audit Plan:</p> <ol style="list-style-type: none"> 1. Assess planned capital project outcomes for fiscal year 2025-26. 2. In December 2025, initiate a six-month review of sole source justifications to evaluate progress. 	<p>OIPA operates and sets its Audit Plan independently. Major agency changes to policies and processes may take longer than six months to demonstrate results.</p>	<p>Office of the Independent Auditor</p> <p>Due: Based on OIPA input</p>
4	1	<p>Update policy to require contract staff evaluate and document the need to sole source contract amendments.</p>	<p>Management agrees with this recommendation.</p> <p>Project managers are responsible for evaluating and documenting the need to sole source contracts and the Department Director is responsible for certifying this need. The Procurement Manual currently states that "the Contracts staff member assigned to process the request will review the justification to ensure it is complete, contains a detailed explanation, has appropriate documentation, and has been signed by the Director."</p> <p>To further strengthen this process, staff is working on an update to the Sole Source Procedures that will include additional levels of review and recommendation of approval as well as a Check List that contract staff must use to confirm that the justification to sole source is sufficient and appropriate.</p>	<p>Director of Contracts and Procurements</p> <p>Due: 9/30/2025</p>
4	2	<p>Develop a process to periodically review non-sole sourced contract amendments for compliance with sole source thresholds.</p>	<p>Management agrees with this recommendation.</p> <p>Management will develop a process as part of its Internal Controls Program and Project Program Management to periodically review a sample of non-sole sourced</p>	<p>Director of Internal Controls/ Director of Project Program Management</p>

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
			contract amendments to ensure compliance with sole source thresholds.	Due: 03/31/2026
4	3	Evaluate and revise policy to strengthen requirements for when amendments should be awarded by sole source, considering materiality and the original contract value.	Management agrees with this recommendation. Management will review best practices from peer agencies and update policies as needed to strengthen requirements for when amendments should be awarded by sole source, potentially considering materiality and the original contract value.	Director of Contracts and Procurements / Office of General Counsel Due: 12/31/2025
4	4	Update procurement policy to require that contracts include the maximum dollar value, as required.	Management agrees with this recommendation. The Procurement Manual currently states that for IDIQ contracts, "the joint minimum and maximum quantities are expected to be stated in the solicitation and contract." This language will be expanded to clearly state that all contracts must contain a maximum dollar value.	Director of Contracts and Procurements Due: 9/30/2025
5	1	Work with the Board to develop a specific dollar threshold for requesting Board consent prior to awarding contracts by sole source.	Management agrees with this recommendation. The current threshold for requesting Board approval prior to awarding a sole source contract is \$5 million. Management will review this threshold with the Board to determine if any adjustments are needed.	Director of Contracts and Procurements / Office of General Counsel Due: 12/31/2025