

Triennial (FY 2022 - FY 2024) Transportation Development Act Performance Audit Findings, Summary of Findings, and Agency Management Responses

1. SANDAG and the Consolidated Transportation Services Agency Audit Findings

1.1 Compliance with TDA Requirements

SANDAG is not in compliance with **one** of 14 applicable requirements under the California Public Utilities Code (PUC), California Code of Regulations (CCR), and the Caltrans Performance Audit Guidebook. The issue relates to the untimely submission of the triennial performance audit. A recommendation has been provided to ensure future audits are submitted in accordance with applicable guidance. Additionally, one observation was identified related to the lack of outcome-based performance metrics in Facilitating Access to Coordinated Transportation (FACT)'s quarterly reporting and recommending SANDAG to require FACT to report on this type of data.

FACT is not in compliance with **two** of the 20 applicable requirements under the PUC and the SANDAG-FACT agreement. Areas of noncompliance include the untimely submission of the annual operations report and late submission of the FY24 certified fiscal audit without an approved extension. Recommendations have been provided to address these issues and enhance alignment with requirements.

1.2 Prior Audit Recommendation Implementation

SANDAG fully implemented two of the three prior audit recommendations, and partially implemented one of the three. The two fully implemented recommendations included enhancing the role of the Social Services Transportation Advisory Council (SSTAC) in advising on unmet transit needs and implementing internal strategies to align staff following a recent organizational restructuring. The partially implemented recommendation related to establishing a formalized process for annually reviewing and updating Policy No. 27 and the TDA Claim Manual. While updates have been made, a consistent, documented framework for annual review and communication with operators has not yet been established.

1.3 Functional Review

The audit identified four areas where SANDAG could strengthen its operational effectiveness. Within RTPA administration, formalizing a system to track training and monitor policy updates, with clear timelines, would support consistent staff development and procedural clarity. Establishing a performance monitoring framework for the Regional Transportation Plan would also help align reported progress with strategic objectives and improve transparency. Additionally, enhancing marketing oversight through a centralized dashboard and strengthening grant management systems would improve coordination, accountability, and long-term scalability.

1.4 SANDAG Findings and Observations

1.4.1 Finding 01 – Triennial Performance Audit Report Delivery

The performance audit covering the three-year period ending June 30, 2021, was due by June 30, 2022, but was not submitted until September 2, 2022. California Public Utilities Code §§ 99246 and

99248 require that performance audits of the Regional Transportation Planning Agency (RTPA) and its transit operators be conducted every three years and submitted in a timely manner as a condition for continued eligibility to receive Transportation Development Act (TDA) funds.

While these statutes do not explicitly prescribe a submission deadline, the *Performance Audit Guidebook for Transit Operators and Regional Transportation Planning Entities* issued by Caltrans interprets this requirement to mean the performance audit should be submitted within 12 months following the end of the triennium.

According to SANDAG staff, the delay was due to staff turnover and an oversight in tracking submission responsibilities.

Recommendation

Management should develop and implement formal procedures to ensure timely submission of future triennial performance audits in alignment with Caltrans guidance. This may include assigning clear responsibility for tracking audit deadlines, maintaining a compliance calendar with critical due dates, and establishing internal reminders and checklists to confirm timely transmittal. Additionally, documentation of submission should be retained in a centralized location to support future compliance monitoring and audit readiness.

Management Response:

SANDAG agrees with the recommendation. Management will strengthen its procedures to ensure timely submission of future triennial audits in alignment with Caltrans guidance. These procedures will include: 1) the development and maintenance of a compliance calendar; 2) clearly identified roles and responsibilities for tracking key dates and audit deadlines; and 3) the integration of internal controls, such as checklists, to ensure timely transmittal. Additionally, SANDAG will establish a central repository for documentation and include in document retention policies.

Responsible Party: SANDAG Director of Internal Controls

Implementation Date: March 2026

1.4.2 Finding 02 – Fiscal Audit Report Delivery

FACT's FY24 certified fiscal audit was submitted on March 5, 2025, exceeding the 180-day deadline, and no extension was obtained to authorize the late submission. In addition, the audit did not include the required certification that TDA funds were expended in conformance with applicable laws and regulations. Public Utilities Code (PUC) § 99245 and the SANDAG agreement with FACT require submission of a certified fiscal audit within 180 days after the end of the fiscal year (i.e., by December 30), and that the audit include this certification.

Recommendation

Management should strengthen internal procedures to ensure timely submission of the certified fiscal audit within the 180-day deadline. This should include maintaining a compliance calendar, assigning responsibility for monitoring due dates, and establishing a process to request extensions in advance when delays are anticipated. Documentation of both submission and extension approvals should be retained to support future compliance monitoring.

Management Response:

SANDAG agrees with the recommendation. Management will strengthen its procedures to ensure proper oversight of FACT's certified fiscal audits and meeting the 180-day deadline requirements. For example, SANDAG will continue to incorporate the Quarterly Reports for the Regional Short-

Range Transit Planning Task Force (RSRTPTF) as a tool for periodic monitoring of FACT's compliance with contract requirements.

Additionally, SANDAG's procedures will focus on: 1) the development and maintenance of a compliance calendar; 2) clearly identified roles and responsibilities for tracking key dates and audit deadlines; and 3) the integration of internal controls, such as checklists, to ensure timely transmittal. SANDAG will develop a process for requesting an extension in advance. Additionally, SANDAG will establish a central repository for documentation and include in document retention policies.

Responsible Party: SANDAG Director of Internal Controls

Implementation Date: March 2026

1.4.3 Finding 03 - Late Submission of Annual Operations Reports

FACT did not submit the annual operations reports within 90 days of fiscal year-end. The annual operations reports for FY22, FY23, and FY24 were submitted on November 29, 2022, January 31, 2024, and February 13, 2025.

PUC § 99243 requires transit operators to submit an annual report of operations to the transportation planning agency and the State Controller within seven months after the end of the fiscal year. However, under the SANDAG agreement with FACT, FACT is required to submit this report within 90 days of fiscal year-end (i.e., by September 28).

Recommendation

Management should implement internal controls to ensure that annual operations reports are submitted in accordance with the 90-day requirement. This should include establishing a clear timeline for report preparation, assigning responsibility for submission tracking, and incorporating this deadline into the organization's compliance calendar.

Management Response:

SANDAG agrees with the recommendation. Management will strengthen its procedures to ensure proper oversight of FACT's submission of annual operations reports within the 90 days of fiscal year-end deadline. For example, SANDAG will continue to incorporate the Quarterly Reports for the Regional Short-Range Transit Planning Task Force (RSRTPTF) as a tool for periodic monitoring of FACT's compliance with contract requirements. Additionally, SANDAG's procedures will focus on: 1) the development and maintenance of an annual calendar; 2) clearly identified roles and responsibilities for tracking key dates and audit deadlines; and 3) the integration of internal controls, such as checklists, to ensure timely transmittal.

Responsible Party: SANDAG Director of Internal Controls

Implementation Date: March 2026

1.4.4 Observation 01 - Limited Outcome-Based Performance Reporting

SANDAG should require FACT to incorporate outcome-based performance indicators, such as call responsiveness, trip fulfillment rates, and service denials, into its quarterly reporting. These metrics are critical for evaluating the effectiveness of centralized service delivery and determining whether the needs of transportation-disadvantaged populations are being met.

Currently, FACT's quarterly reporting focuses primarily on output metrics, such as the number of referrals made, rather than on outcomes that reflect service quality and impact. While the report

provides valuable insights on FACT's service reach, the lack of outcome-based data limits SANDAG's ability to assess the actual performance and effectiveness of the centralized coordination model.

Recommendation

SANDAG should require FACT to incorporate outcome-based performance measures into its regular reporting. Metrics such as call wait times, successful ride fulfillment rates, and service denials should be tracked and reported alongside existing referral volume data. This would enhance visibility into the effectiveness of centralized administration and support continuous improvement in service coordination.

Management Response

SANDAG agrees with the observation. SANDAG supports tracking and reporting data that increases transparency into operations and that would allow for more thorough assessment of the performance and effectiveness of the centralized coordination model. SANDAG will work with the Office of General Counsel to determine how performance metrics can be added to FACT's reporting requirements through an amendment to their service agreement.

Responsible Party: SANDAG Senior Director Regional Planning

Implementation Date: June 2026

1.4.5 Observation 02 – Centralized Learning Management System

SANDAG does not currently have a centralized system in place to track employee training activities, resulting in limited visibility into completed or upcoming trainings across departments. This lack of centralized oversight may hinder the agency's ability to proactively identify critical knowledge gaps and ensure consistent staff development.

In addition, while departments are responsible for updating their internal policies and procedures, there is no formalized process to monitor the status of these updates agency-wide. As a result, progress toward achieving consistent and up-to-date documentation varies by department, and no defined timeline or target completion date has been established to guide the overall effort. This decentralized approach limits accountability and may delay agency-wide alignment on internal standards and practices.

Recommendation

SANDAG should consider implementing a centralized system, such as a Learning Management System (LMS), to track employee training activities, both completed and upcoming, to improve visibility into staff development and ensure critical knowledge gaps are identified and addressed.

Additionally, SANDAG should establish and define a process to monitor the status of departmental policy and procedure updates, ensuring that departments are progressing toward the agency's goal to have clear, consistent, and efficient guidance. Further, SANDAG should consider establishing a target completion date for the agency-wide effort, providing staff with a goal to effectively plan the policy and procedure updates alongside ongoing responsibilities.

Collectively, these actions would promote staff capacity-building, improve internal documentation, and strengthen the agency's preparedness for evolving operational and regulatory demands.

Management Response:

Management agrees with the observation. SANDAG is currently undergoing a holistic review of its training program, which includes, but is not limited to, assessing staff training needs, identifying

content delivery tools, delineating documentation requirements, and determining an appropriate central repository for maintaining and monitoring compliance. To that end, SANDAG is also reviewing its internal policies and procedures which include, but is not limited to, a review of the structure and content of policy documents. These efforts are comprehensive in nature and will take an extended amount of time to complete and SANDAG is committed to enhancing these areas.

Responsible Party: SANDAG Director of Human Resources and SANDAG Director of Internal Controls

Implementation Date: October 2026

1.4.6 Observation 03 – Establishing a Performance Monitoring Framework for RTP

SANDAG does not currently maintain a dedicated performance monitoring framework specific to the Regional Transportation Plan (RTP) component of its 2021 Regional Plan. While general progress reporting occurs, there is no structured mechanism to consistently track and communicate progress against the specific objectives, strategies, and metrics outlined in the RTP. As a result, stakeholders and the public may have limited visibility into how implementation efforts align with RTP goals, which may reduce transparency, hinder accountability, and limit the agency's ability to make data-informed decisions related to long-range regional transportation planning.

Recommendation

To improve transparency, accountability, and informed decision-making, SANDAG should consider establishing a dedicated performance monitoring framework focused specifically on the Regional Transportation Plan (RTP) component of its Regional Plan, specifically, the 2021 Regional Plan for the audit period. This would help ensure that progress reported to stakeholders is directly aligned with the objectives and metrics of the most current RTP, and foster transparency with the public of the agency's efforts to successfully implement the RTP.

Management Response:

SANDAG does not fully agree with the observation. SANDAG maintains an Open Data Portal, annually publishes the State of the Commute, and provides a report to the State of California (per Assembly Bill 805), which are all performance monitoring tools for the Regional Transportation Plan.

Responsible Party: SANDAG Senior Director Regional Planning and SANDAG Director of Internal Controls

Implementation Date: June 2026

1.4.7 Observation 04 – Centralization of Marketing Campaign Documentation

SANDAG's Marketing and Transportation Alternatives function does not currently use a centralized tool or dashboard to document and track active marketing campaigns and their associated performance metrics. As a result, information related to outcomes and successes is dispersed across various sources or not consistently maintained. This limits the agency's ability to evaluate the effectiveness of individual campaigns, assess overall public engagement, and provide a clear, comprehensive view of marketing activities to internal and external stakeholders. The absence of a centralized tracking method may also hinder data-driven decision-making and long-term strategic planning.

Recommendation

SANDAG's Marketing and Transportation Alternatives function should consider developing and implementing a centralized dashboard or other method to document all active marketing campaigns and their associated performance metrics. This would provide a comprehensive view of active campaign activities, enhance the ability to evaluate program effectiveness and public engagement, and improve transparency with stakeholders.

Management Response:

SANDAG agrees with the observation. SANDAG's marketing, education, and outreach efforts help raise awareness of commute choices and other initiatives and projects in the region. Currently, SANDAG documents its marketing efforts in its Recap Reports. However, the development of a tool/dashboard is currently not feasible given existing resources and capacity.

However, SANDAG will explore options for creating a centralized tool, dashboard, or equivalent to document all active marketing campaigns and the associated performance metrics in one central location. The intent of the tool will be to provide: 1) a clear, comprehensive view of marketing activities; and 2) data that will assist in short- and long-term planning strategies.

Responsible Party: SANDAG Director of Public Affairs and SANDAG Director of Internal Controls

Implementation Date: June 2026

1.4.8 Observation 05 – Enhancement of Controls in the Grant Tracking System

SANDAG currently tracks grant activities using an Excel spreadsheet. The existing approach may not fully support efficient tracking, consistent documentation, or centralized oversight of grant-related tasks. This may limit visibility into key aspects of grant administration and create challenges in maintaining consistency across departments or funding sources.

Recommendation

To enhance its grant management capacity, SANDAG could strengthen existing practices by incorporating additional controls into its current tracking system, such as access restrictions and data validation features. Alternatively, the agency may consider transitioning to a centralized grants management system capable of automating key tasks, flagging compliance risks, and maintaining a reliable audit trail. These improvements would support greater scalability, reduce administrative burden, and enhance overall accountability in managing federal funds.

Management Response:

SANDAG agrees with the observation. SANDAG currently uses an Excel spreadsheet to monitor federal grant activities and concurs that a tool with advanced functionality and automation capabilities would be advantageous. However, transitioning to a centralized grants management system currently is not feasible. We will commit to exploring options for strengthening internal controls within the existing system (such as change tracking, standardizing documentation protocols, data validation, etc.).

Responsible Party: SANDAG Director of Financial Planning, Budgets, and Grants and SANDAG Director of Internal Controls

Implementation Date: June 2026

2. MTS Audit Findings

2.1 Compliance with TDA Requirements:

MTS is not in compliance with **three** of the nine applicable requirements outlined in the PUC California Code of Regulations (CCR), and the Caltrans Performance Audit Guidebook. Specifically, the annual fiscal and compliance audit reports submitted during the audit period did not include the required certification stating that TDA funds were expended in accordance with applicable laws and regulations.

In addition, MTS did not provide the required statement of how services and transfers are being coordinated with operators with its TDA claims for FY 2022 through FY 2024. This statement is required by Item #7 of SANDAG's TDA Claim Checklist.

Lastly, while MTS has developed and begun implementing a plan to fully fund its retirement system within the required 40-year period, the plan had not been submitted to or approved by SANDAG, as required under PUC § 99271. Recommendations have been provided to address each of these compliance gaps and support alignment with applicable statutory and regulatory requirements.

2.2 Prior Audit Recommendation Implementation

MTS has effectively implemented the 2021 triennial performance audit recommendation. MTS has improved transparency in farebox recovery ratio (FRR) reporting by providing detailed revenue breakdowns to SANDAG, aligning with both state and federal requirements, and incorporating eligible revenues in Schedule 8 beginning with the FY24 TDA claim.

2.3 Functional Review:

MTS consistently monitored performance as part of its general management practices, using established evaluation methodologies, reports, and reporting frequencies to ensure performance updates were communicated to internal departments, management, and the Board throughout the audit period. These reports include the triannual and annual service evaluations, in which MTS management reviews and proactively responds to address improvement opportunities, such as adjusting service levels to respond to budget constraints. To further strengthen MTS' performance and operational practices, one recommendation has been identified and is offered for the agency's consideration regarding Full-Time Equivalent (FTE) data calculated using the TDA standard definition.

2.4 Verification and Use of Performance Indicators:

One finding has been identified related to MTS' definition and usage of employee count. The method used by MTS to calculate and report on employees does not align with the TDA standard definition as defined in Public Utilities Code - PUC § 99247. MTS should consider using the TDA definition of 2,000 hours per FTE rather relying on a headcount or employee roster to help ensure reporting accuracy and consistency.

During the audit period, MTS showed systemwide recovery as ridership steadily increased, nearing pre-pandemic levels. Operating costs rose due to factors such as higher demand-response services, employee wages, insurance, and vehicle expenses. Despite rising costs, efficiency improved with decreases in operating cost per passenger trip and increases in passengers per service hour and mile. Vehicle service hours per employee remained relatively stable, reflecting MTS's ability to attract both returning and new riders while managing service demands.

2.5 MTS Findings and Observations

2.5.1 Finding 01 – Fiscal Audit and Compliance Reports Certification:

The annual fiscal audit reports for FY22, FY23, and FY24 did not include the required certification that TDA funds were expended in conformance with applicable laws and regulations. This certification, mandated by California Public Utilities Code (PUC) § 99245, must explicitly confirm, through a written statement, that funds were used in accordance with the provisions of the TDA and related regulations: "The report shall include a certification that the funds allocated to the claimant pursuant to this chapter were expended in conformance with applicable laws and rules and regulations."

While the audit reports include the financial auditor's opinion on the fair presentation of the financial statements, this opinion does not serve as a substitute for the required compliance certification. The financial auditor's opinion addresses whether the financial information is presented fairly in accordance with generally accepted accounting principles, whereas the compliance certification specifically affirms that TDA funds were expended in accordance with applicable laws and regulations.

Recommendations for Management

We recommend that MTS include in the scope of work for future audit procurements a requirement for the auditor to assess compliance with the Transportation Development Act (TDA) as a distinct component of the engagement. This will ensure the audit includes the required certification that TDA funds were expended in accordance with applicable laws and regulations, clearly presented and separate from the financial opinion.

Management Response:

MTS agrees with the recommendation. Management will strengthen its procedures to ensure MTS's external auditor includes language in the opinion section stating that MTS will comply with PUC 99245 and the report shall include a certification that the funds allocated to the claimant pursuant to this chapter were expended in conformance with applicable laws and rules and regulations.

Responsible Party: MTS – Deputy CFO

Implementation Date: 12/31/2025

2.5.2 Finding 02 – TDA Claim Support

MTS did not provide the required statement of how services and transfers are being coordinated with operators with its TDA claims for FY 2022 through FY 2024. This documentation is required to demonstrate eligibility for TDA funding under the established claims process.

Public Utilities Code (PUC) § 99261 requires that claims for TDA funds be submitted in accordance with the rules and regulations established by the RTPA. SANDAG, in its role as Regional Transportation Planning Agency (RTPA), implements this requirement through its TDA Claim Manual, which includes a TDA Claim Checklist. Item #7 of the checklist specifically requires "a statement of how services and transfers are being coordinated with operators." While MTS is a member of SANDAG's Social Services Transportation Advisory Council to review and recommend development of accessible transportation, MTS should include the required statement to support compliance with this requirement.

Recommendations for Management

We recommend that MTS ensure all future TDA claim submissions include the required supporting documentation as outlined in SANDAG's TDA Claim Manual and checklist. Specifically, MTS should include the required statement describing how services and transfers are coordinated with other operators, as required by item #7 of the TDA Claim Checklist. To support compliance, MTS should implement internal procedures to review the checklist in its entirety and verify that all applicable items are addressed prior to submission.

Management Response:

MTS agrees with the recommendation. Management will strengthen its procedures to ensure MTS includes a Statement of how services and transfers are being coordinated with other operators during the following TDA claim submittal. Specifically, MTS will include the required statement describing how services and transfers are coordinated with other operators, as required by item #7 of the TDA Claim Checklist.

Responsible Party: MTS – Deputy CFO

Implementation Date: 04/30/2026

2.5.3 Finding 03 – Retirement Plan Approval

MTS has developed and is implementing a plan to fully fund its employee retirement system within the 40-year timeframe required under Public Utilities Code (PUC) § 99271. However, as of the time of review, the plan had not been submitted to or approved by SANDAG.

PUC § 99271 requires that either the retirement system be fully funded or that the operator implement a funding plan that has been approved by the RTPA. While MTS appears to be progressing with its internal implementation, the absence of formal RTPA approval indicates the statutory requirement has not been fully satisfied.

Recommendations for Management

We recommend that MTS submit its retirement system funding plan to SANDAG for formal review and approval to ensure full compliance with PUC § 99271. The statute requires RTPA approval for any plan intended to fully fund the retirement system within 40 years.

Management Response:

MTS agrees with the recommendation. Management will strengthen its procedures to ensure MTS submits to SANDAG its retirement system (five Actuarial Valuation reports) funding plan to SANDAG for formal review and approval to ensure full compliance with PUC § 99271. The statute requires RTPA approval for any plan intended to fully fund the retirement system within 40 years.

Responsible Party: MTS – Deputy CFO

Implementation Date: 04/30/2026

2.5.4 Finding 04 – Data Reporting Related to Full-Time Equivalent (FTE)

MTS does not currently use the standard TDA definition of 2,000 hours per Full-Time Equivalent (FTE) as required by Caltrans' Performance Audit Guidebook for Transit Operators

and Regional Transportation Planning Entities and PUC § 99247, when reporting data to SANDAG. Instead, MTS uses headcount or employee rosters to report data.

The Performance Guidebook requires that operators define their internal performance measures consistently with the definition listed at PUC § 99247, including vehicle service hours per employee.

PUC § 99247 defines employees as "2,000 person-hours of work in one year constitute one employee."

Recommendation

We recommend MTS ensure Full-Time Equivalent (FTE) data reported to SANDAG is calculated using the TDA standard definition of 2,000 hours per FTE, rather than relying on a headcount or employee roster. Aligning with this definition will help ensure the accuracy and consistency of reported data and maintain compliance with TDA reporting requirements.

Accurate and standardized reporting of FTE data will support clearer performance assessments, strengthen compliance with TDA guidelines, and promote uniform reporting practices across the region.

Management Response:

MTS agrees with the recommendation. Management will strengthen its procedures and will be corrected with the submittal of FY25 report and future reports to reflect the standard TDA definition of 2,000 hours per Full-Time Equivalent (FTE).

Responsible Party: MTS – Deputy CFO

Implementation Date: 04/30/2026

3. NCTD Audit Findings

3.1 Compliance with TDA Requirements

NCTD is not in compliance with **two** of the nine applicable requirements outlined in the PUC California Code of Regulations (CCR), and the Caltrans Performance Audit Guidebook. NCTD did not submit executed contracts with its annual TDA claims as required by Item #14 of SANDAG's TDA Claim Checklist, which is part of the RTPA's implementation of PUC § 99261.

Additionally, while NCTD has developed and begun implementing a plan to fully fund its retirement system within the required 40-year period, the plan had not been submitted to or approved by SANDAG, as required under PUC § 99271. Recommendations have been provided to address each of these compliance gaps and support alignment with applicable statutory and regulatory requirements.

One observation related to PUC § 99245 was identified regarding the lack of clarity in how the required TDA compliance statement is reflected in NCTD's annual fiscal and compliance audit reports. A recommendation has been provided to enhance clarity in future annual reports.

3.2 Prior Audit Recommendation Implementation

NCTD has **partially implemented** the one recommendation from the prior Triennial Performance Audit (FY2019-2021). While NCTD began reporting farebox recovery ratios in its FY2022 Annual Comprehensive Financial Report (ACFR) consistent with submissions to the State Controller's Office, NCTD has not fully addressed the broader intent of the recommendation, which called for improved alignment across reporting frameworks and coordination with SANDAG. Further action is needed to ensure consistency, comparability, and regional alignment in farebox recovery reporting.

3.3 Functional Review

No findings or recommendations have been identified. NCTD demonstrated a strong understanding of its operational environment and strategic priorities, particularly in response to post-pandemic ridership trends, labor market challenges, and shifting regional goals. The agency has made notable progress in insourcing key functions to enhance oversight and operational control while also implementing targeted service adjustments to improve efficiency and responsiveness to customer needs.

3.4 Performance Indicators

No findings or recommendations have been identified. During the audit period, NCTD experienced mixed but generally positive trends in its services and performance for riders. Recovering from the COVID-19 pandemic, NCTD has shown systemwide signs of recovery with an increase in passengers over the audit period. Vehicle service hours and service miles have decreased since the prior triennial audit period; however, those trends are slowly recovering as NCTD strategically expands and restores services to service areas scaled back during the pandemic. The number of full-time employees also decreased during the audit period; however, discussions with NCTD leadership revealed that this reduction was intentional, aimed at improving efficiency and oversight of personnel. Throughout this period, NCTD has faced operational, financial, and safety challenges but has taken proactive

steps to address them, including transitioning from third-party contracts to in-house operations to improve performance in each area.

3.5 NCTD Findings and Observations

3.5.1 Finding 01 – TDA Claim Support

NCTD did not provide copies of executed contracts with its TDA claims for FY 2022 through FY 2024, despite operating under a contracted service model. This documentation is required to demonstrate eligibility for TDA funding under the established claims process.

Public Utilities Code (PUC) § 99261 requires that claims for TDA funds be submitted in accordance with the rules and regulations established by the RTPA. SANDAG, in its role as RTPA, implements this requirement through its TDA Claim Manual, which includes a TDA Claim Checklist. Item #14 of the checklist specifically requires “copies of executed contracts...for services provided to the operator by a contractor, if the system is operated by a contractor.”

Recommendations for Management

We recommend that NCTD ensure all future TDA claim submissions include the required supporting documentation as outlined in SANDAG’s TDA Claim Manual and checklist. Specifically, NCTD should include copies of executed contracts for services provided by a third-party, as required by item #14 of the TDA Claim Checklist. NCTD should implement internal procedures to review the checklist in full and verify that all applicable items are addressed prior to submission.

Management Response:

NCTD has supplemented its FY2025 TDA claim submission to SANDAG with a copy of the MV Transportation contract documents. This was completed on August 14, 2025. Effective June 29, 2025, all NCTD transit services are directly operated, accordingly, this requirement is not applicable to FY2026 and future year claim submissions to SANDAG. In the future, should any NCTD services return to a contracted model, NCTD will submit a copy of the relevant contract documents to SANDAG with the respective TDA Claim(s).

Responsible Party: Eun Park-Lynch, Chief Financial Officer

Implementation Date: August 2025

3.5.2 Finding 02 – Retirement Plan Approval

NCTD has developed and is implementing a plan to fully fund its employee retirement system within the 40-year timeframe required under Public Utilities Code (PUC) § 99271. However, as of the time of review, the plan had not been submitted to or approved by SANDAG.

PUC § 99271 requires that either the retirement system be fully funded or that the operator implement a funding plan that has been approved by the RTPA. While NCTD appears to be on track with its internal implementation, the absence of formal RTPA approval indicates the statutory requirement has not been fully satisfied.

Recommendations for Management

We recommend that NCTD submit its retirement system funding plan to SANDAG for formal review and approval to ensure full compliance with PUC § 99271. The statute requires RTPA approval for any plan intended to fully fund the retirement system within 40 years.

Management Response:

NCTD participates in the CalPERS defined benefit pension program. In accordance with CalPERS procedures, employer contribution requirements (normal cost and unfunded accrued liability) are determined by annual actuarial valuations under state law. NCTD will submit the CalPERS annual valuation reports to SANDAG when released by CalPERS annually and will ensure its inclusion in future TDA claim submissions in accordance with PUC § 99271. Further, NCTD is aware that SANDAG is supplementing the claims process via a newly created Retirement Plan Questionnaire which will be required with future claims submissions. NCTD will complete the questionnaire as requested upon implementation by SANDAG.

Responsible Party: Eun Park-Lynch, Chief Financial Officer

Implementation Date: September 2025

3.5.3 Observation 01 – Compliance Certification Clarity

PUC § 99245 requires that the TDA claimants' annual fiscal and compliance audit report include a certification that their TDA funds were expended in conformance with applicable laws and regulations. The implementing guidance in 21 California Code of Regulations (CCR) § 6664 allows this certification to be provided in the form of negative assurance if it references the performance by the independent auditor of each task specified in Sections 6666 or 6667.

Based on inquiry, NCTD's independent external auditors indicate they incorporated TDA compliance procedures into the broader FY 2022, FY 2023, and FY 2024 Single Audits, which covered multiple federal and state funding sources. In each of these reports, TDA is referenced only in the table of contents.

While the reports include a negative assurance statement that appropriately cites the requirements of 21 CCR § 6664, the absence of a direct reference to TDA within the body of the reports creates uncertainty as to whether the PUC § 99245 certification requirement has been fully met. This lack of explicit linkage between the TDA requirement and the related audit work reduces clarity for report users and may lead to confusion regarding compliance with statutory requirements.

Recommendation

We recommend that, when using the Single Audit to address the PUC § 99245 certification requirement, NCTD ensure their auditor clearly identifies relevant TDA regulations within the body of the report to explicitly link the compliance certification, whether in the form of negative assurance or otherwise, to the performance of each task specified in CCR § 6666 or § 6667, as applicable. This will provide transparency, improve clarity for report users, and reduce potential confusion regarding compliance with statutory requirements.

Management Response:

NCTD's external auditors, Eide Bailly, a national firm of Certified Public Accountants with extensive experience auditing California transit agencies, provided the following response:

NCTD's single audit report includes the independent audit's report on internal control over financial reporting and on compliance and other matters based on an audit of the financial statements performed in accordance with Government Auditing Standard and the Transportation Development Act (GAGAS report). Section 6664 provides the audit requirements (in accordance with the referenced 99245 requirement) and notes that "the audit report should include a certification..." but that the certification "may take the form of negative assurance, if it makes reference to the performance by the independent auditor of each of the tasks specified in Section 6666 or 6667." NCTD's "Report on Compliance and Other Matters" portion of the GAGAS report, notes the performance of the requirements in accordance with 6667 of Title 21 of the CCR.

While the statement satisfies the requirements for the TDA, NCTD will request that future Single Audit certifications provide more clarity on NCTD compliance with PUC § 99245.

Responsible Party: Eun Park-Lynch, Chief Financial Officer

Implementation Date: December 2025