

BOARD MEMBERS

Bill Baber, Chair
Councilmember, City of La Mesa

Bill Wells, Vice Chair
Mayor, City of El Cajon

Alternate At Large

Vacant

PUBLIC MEMBERS

Paul Dostart
Public Member

Stewart Halpern
Public Member

Bob Monson
Public Member

STAFF

Mary Khoshmashrab, CPA
Independent Performance Auditor

Hasan Ikhata
Executive Director, SANDAG



Audit Committee Agenda

Friday, April 12, 2019

12:30 to 2:30 p.m.

SANDAG, 7th Floor Conference Room

401 B Street, 7th Floor

San Diego

Agenda Highlights

- **SANDAG FY 2018 Financial Audit Program – Results of Fiscal and Compliance Reports**
- **Quarterly Internal Audit Program Update**

Please silence all electronic devices during the meeting

Mission Statement

The 18 cities and county government are SANDAG serving as the forum for regional decision-making. SANDAG builds consensus; makes strategic plans; obtains and allocates resources; plans, engineers, and builds public transit; and provides information on a broad range of topics pertinent to the region's quality of life.

San Diego Association of Governments · 401 B Street, Suite 800, San Diego, CA 92101-4231
(619) 699-1900 · Fax (619) 699-1905 · sandag.org



Welcome to SANDAG. Members of the public may speak to the Audit Committee (Committee) on any item at the time the Committee is considering the item. Please complete a Request to Comment form located at the Clerk desk. Members of the public may address the Committee on any issue under the agenda item entitled Public Comments/Communications/Member Comments. Public speakers are limited to three minutes or less per person. The Committee may take action on any item appearing on the agenda.

Both agenda and non-agenda comments should be sent to the Clerk of the Committee via clerk@sandag.org. Please include the meeting date, agenda item, your name, and your organization. Any comments, handouts, presentations, or other materials from the public intended for distribution at the meeting should be received by the Clerk no later than 5 p.m. two working days prior to the meeting. All public comments and materials received by the deadline become part of the official public record and will be provided to the members for their review at the meeting.

In order to keep the public informed in an efficient manner and facilitate public participation, SANDAG also provides access to all agenda and meeting materials online at sandag.org/meetings. Additionally, interested persons can sign up for email notifications at sandag.org/subscribe.

SANDAG operates its programs without regard to race, color, and national origin in compliance with Title VI of the Civil Rights Act. SANDAG has developed procedures for investigating and tracking Title VI complaints, and the procedures for filing a complaint are available to the public upon request. Questions concerning SANDAG nondiscrimination obligations or complaint procedures should be directed to the SANDAG General Counsel, John Kirk, at (619) 699-1997 or john.kirk@sandag.org. Any person who believes himself or herself or any specific class of persons to be subjected to discrimination prohibited by Title VI also may file a written complaint with the Federal Transit Administration.

In compliance with the Americans with Disabilities Act (ADA), SANDAG will accommodate persons who require assistance in order to participate in SANDAG meetings. If such assistance is required, please contact SANDAG at (619) 699-1900 at least 72 hours in advance of the meeting. To request this document or related reports in an alternative format, please call (619) 699-1900 or (619) 699-1904 (TTY), or fax (619) 699-1905.

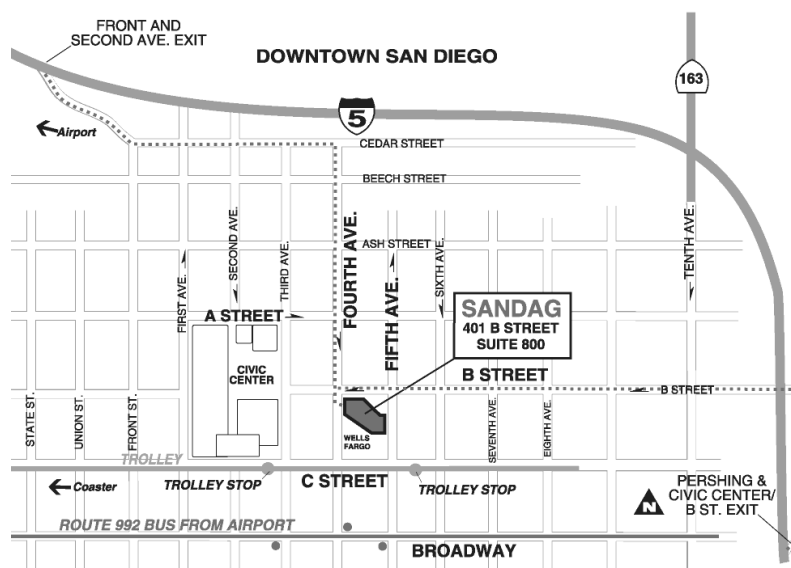
SANDAG agenda materials can be made available in alternative languages. To make a request, call (619) 699-1900 at least 72 hours in advance of the meeting.

Los materiales de la agenda de SANDAG están disponibles en otros idiomas. Para hacer una solicitud, llame al (619) 699-1900 al menos 72 horas antes de la reunión.

如有需要, 我们可以把SANDAG议程材料翻译成其他语言.

请在会议前至少 72 小时打电话 (619) 699-1900 提出请求.

SANDAG offices are accessible by public transit. Phone 511 or visit 511sd.com for route information. Bicycle parking is available in the parking garage of the SANDAG offices.



Audit Committee

Friday, April 12, 2019

Item No.		Action
+1.	Approval of Meeting Minutes The Audit Committee is asked to review and approve the minutes from its February 8, 2019, meeting.	Approve
2.	Public Comments/Communications/Member Comments Members of the public shall have the opportunity to address the Audit Committee on any issue within the jurisdiction of SANDAG that is not on this agenda. Anyone desiring to speak shall reserve time by completing a Request to Comment form and giving it to the Clerk prior to speaking. Public speakers should notify the Clerk if they have a handout for distribution to Audit Committee members. Public speakers are limited to three minutes or less per person. Audit Committee members also may provide information and announcements under this agenda item.	
Reports		
3.	San Diego Forward: The Regional Plan An update on development of San Diego Forward: The Regional Plan will be provided.	Information
4.	Update on Airport Connectivity Subcommittee An update on the Airport Connectivity Subcommittee will be provided.	Information
+5.	SANDAG FY 2018 Financial Audit Program – Results of Fiscal and Compliance Reports (André Douzdjian; Katherine Lai, Crowe LLP) Katherine Lai, Crowe LLP, will provide an overview of the remaining finalized reports of the FY 2018 SANDAG Financial Audit.	Information
+6.	Quarterly Internal Audit Program Update (Steve Castillo) Staff will provide an update on internal audit activities conducted during the third quarter of FY 2019.	Information
+7.	Overview of Operations Department (Ray Traynor) Staff will provide an overview of the Operations Department.	Information
8.	Continued Public Comments If the five-speaker limit for public comments was exceeded at the beginning of this agenda, other public comments will be taken at this time. Subjects of previous agenda items may not again be addressed under public comment.	

9. Upcoming Meetings

Information

The next Audit Committee meeting is scheduled for Friday, May 10, 2019, at 12:30 p.m.

10. Adjournment

+ next to an item indicates an attachment

April 12, 2019

February 8, 2019, Meeting Minutes

Vice Chair Bill Baber (Board member) called the meeting of the Audit Committee to order at 12:34 p.m.

1. Approval of Meeting Minutes (Approve)

Action: Upon a motion by Paul Dostart (Public member), and a second by Mayor Bill Wells (City of El Cajon), the Audit Committee approved the minutes from its January 11, 2019, meeting. Yes: Vice Chair Baber, Mr. Dostart, Bob Monson (Public member), Mr. Wells, and Stewart Halpern (Public member). No: None. Abstain: None. Absent: None.

Action Requested: **Approve**

The Audit Committee is asked to review and approve the minutes from its February 8, 2019, meeting.

2. Public Comments/Communications/Member Comments

Clive Richard, a member of the public, spoke about the independent performance auditor interview and selected candidate.

Vice Chair Baber read the statement provided by the Board regarding the selection of Mary Khoshmashrab as the independent performance auditor.

Reports

3. FY 2018 Audited Comprehensive Annual Financial Report (Information)

André Douzdzjian, Director of Finance, and Katherine Lai, Crowe LLP, provided an overview of the FY 2018 Comprehensive Annual Financial Report and other matters in compliance with the Statement of Auditing Standards 114.

Action: This item was presented for information.

4. Data, Analytics, and Modeling Department Overview (Information)

Ray Major, Director of Data, Analytics, and Modeling (DAM), presented an overview of the SANDAG DAM Department.

Action: This item was presented for information.

5. Overview of SANDAG Debt Program (Information)

Mr. Douzdzjian and Lisa Kondrat-Dauphin, Senior Accountant, presented an overview of the SANDAG debt program, including its monitoring and reporting processes.

Action: This item was presented for information.

6. Continued Public Comments

Vice Chair Baber and Mr. Dostart commented on the FY 2018 Audited Annual Financial Report and procedures.

7. Upcoming Meetings

The next Audit Committee meeting is scheduled for Friday, April 12, 2019, at 12:30 p.m.

8. Adjournment

Vice Chair Baber adjourned the meeting at 2:28 p.m.

Confirmed Attendance at SANDAG Audit Committee Meeting

February 8, 2019

Jurisdiction/Organization	Name	Member/ Alternate	Attended
Vacant	Vacant	Primary	--
Board member	Hon. Bill Baber (Vice Chair)	Member	Yes
Board member	Hon. Bill Wells	Alternate	Yes
Public member	Robert Monson	Primary	Yes
Public member	Paul Dostart	Primary	Yes
Public member	Stewart Halpern	Primary	Yes
SANDAG Staff			

André Douzdjian, Director of Finance

Hasan Ikhata, Executive Director

John Kirk, General Counsel

Kim Kawada, Chief Deputy Executive Director

Lisa Kondrat-Dauphin, Senior Accountant

Ray Major, Director of Data, Analytics, and Modeling

April 12, 2019

SANDAG FY 2018 Financial Audit Program – Results of Fiscal and Compliance Reports

Overview

The independent certified public accounting audit firm of Crowe LLP has issued the outstanding reports of the annual financial audit of SANDAG for the fiscal year ended June 30, 2018. The Transportation Development Act (TDA) audits, SANDAG Single Audit Report on Expenditures of Federal Awards, SANDAG Agreed-Upon Procedures Performed with Respect to the National Transit Database Report, and the SANDAG Independent Accountant's Report on Applying Agreed-Upon Procedures for the Coronado Toll Revenues are provided as attachments to this report.

Action: **Information**

Katherine Lai, Crowe LLP, will provide an overview of the remaining finalized reports of the FY 2018 SANDAG Financial Audit.

Fiscal Impact:

None.

Schedule/Scope Impact:

All reports of the FY 2018 SANDAG Financial Audit Program were issued, resulting in no delays of funding.

Key Considerations

Results of the Comprehensive Annual Financial Report were provided to the Audit Committee at the February 8, 2019, meeting. Issuance of the remaining reports were anticipated toward the end of March.

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 may be approved by SANDAG for those TDA recipients that require more time to complete the audit.

A total of 18 audits were performed including 5 claimants that requested an extension. At the December 21, 2018, Board of Directors meeting, extension requests were approved for the cities of Chula Vista, Coronado, La Mesa, National City, and Solana Beach, until March 27, 2019. All claimants were issued an unmodified (clean) opinion, although the cities of Chula Vista, Coronado, and National City include an audit finding and restatement of the prior year.

The STA audits are required under California Code of Regulations Section 6751. There were no exceptions to the County 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.

SANDAG was found to be in compliance with Single Audit guidelines and qualified as a low-risk auditee with no weaknesses or deficiencies in internal control.

National Transit Database

In accordance with standards set by the FTA, agreed-upon procedures were performed for data reported in the Federal Funding Allocation Statistics form (FFA-10) of the SANDAG annual National Transit Database report. There were no exceptions to this report.

Coronado Toll Revenues

Agreed-upon procedures were performed in accordance with the agreement between SANDAG and the City of Coronado to review that expenditures were used for the appropriate purpose. There were no exceptions to this report.

Next Steps

Since no modified opinions were issued, SANDAG will continue to administer TDA allocations to all claimants who participated in the audit.

André Douzdjian, Director of Finance

Key Staff Contact: Lisa Kondrat-Dauphin, (619) 699-1942, lisa.kondrat-dauphin@sandag.org

Attachments:

1. FY 2018 SANDAG Single Audit Report
2. FY 2018 SANDAG National Transit Database Agreed-Upon Procedures Report
3. FY 2018 Coronado Toll Bridge Report
4. FY 2018 Transportation Development Act Audit Reports

SAN DIEGO ASSOCIATION OF GOVERNMENTS
San Diego, California

SINGLE AUDIT
Year ended June 30, 2018

SAN DIEGO ASSOCIATION OF GOVERNMENTS
San Diego, California

SINGLE AUDIT
Year ended June 30, 2018

CONTENTS

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 <i>GOVERNMENT AUDITING STANDARDS</i>	1
INDEPENDENT AUDITOR'S 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	3
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	5
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	6
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	7

**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**

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 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 the San Diego Association of Governments (SANDAG), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise SANDAG's basic financial statements, and have issued our report thereon dated December 21, 2018. Our report includes an emphasis of matter regarding the implementation of GASB Statement No. 75. Our opinions are not modified with respect to this matter.

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) to determine the 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.

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 may exist that have not been identified.

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether SANDAG's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements including §6662 of Part 21 of the California Code of Regulations, noncompliance with which could have a direct and material effect on the determination of 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 §6662 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 over financial reporting 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.


Crowe LLP

Costa Mesa, California
December 21, 2018

**INDEPENDENT AUDITOR'S 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**

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

Report on Compliance for Each Major Federal Program

We have audited the San Diego Association of Government's (SANDAG) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of SANDAG's major federal programs for the year ended June 30, 2018. SANDAG's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of SANDAG's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about SANDAG's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of SANDAG's compliance.

Opinion on Each Major Federal Program

In our opinion, SANDAG complied, in all material respects, with the types of 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, 2018.

Report on Internal Control over Compliance

Management of SANDAG is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered SANDAG's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of SANDAG's internal control over compliance.

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 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.

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

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of SANDAG as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise SANDAG's basic financial statements. We issued our report thereon dated December 21, 2018, which contained unmodified opinions 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. The 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 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.


Crowe LLP

Costa Mesa, California
March 22, 2019

SAN DIEGO ASSOCIATION OF GOVERNMENTS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2018

Federal Grantor/ Program or Cluster Title	CFDA Number	Grant Pass- Through Number	Federal Expenditures	Passed Through to Subrecipients
U.S. Department of Transportation				
Federal Highway Administration				
Passed through California Department of Transportation:				
Highway Planning and Construction Cluster				
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	74A0817	\$ 4,363,276	\$ (4,058)
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	CMLG-6066(128)	6,038,957	8,102
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	CMLG-6066(138)	439,573	43,128
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	CML-6066(121)	552,280	-
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	ESPLERP-6066(067)	(8,579)	-
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	ITS10-6066(098)	15,191	-
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	RPSTPLE-6066(104)	<u>9,186,268</u>	<u>-</u>
Total Highway Planning and Construction Cluster			20,586,966	47,172
Federal Railroad Administration				
Passed through California Department of Transportation:				
High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants				
	20.319	75FRA0015	396,282	-
High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants				
	20.319	75FRA0016	<u>186,357</u>	<u>-</u>
Total CFDA 20.319			582,639	-
Federal Transit Administration				
Passed through California Department of Transportation:				
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research				
	20.505	74A0817	1,464,728	12,440
Direct Programs:				
Research and Development Cluster:				
Public Transportation Research, Technical Assistance, and Training				
	20.514	n/a	7,230	7,230
Federal Transit Cluster:				
Federal Transit – Capital Investment Grants				
	20.500	n/a	64,238,306	321,129
Federal Transit – Formula Grants				
	20.507	n/a	44,694,023	-
Bus and Bus Facilities Formula Program				
	20.526	n/a	<u>136,510</u>	<u>-</u>
Total Federal Transit Cluster			109,068,839	321,129
Transit Services Programs Cluster:				
Enhanced Mobility of Seniors and Individuals with Disabilities				
	20.513	n/a	3,060,101	957,856
Job Access and Reverse Commute Program				
	20.516	n/a	40,794	-
New Freedom Program				
	20.521	n/a	<u>146,487</u>	<u>-</u>
Total Transit Services Programs Cluster			<u>3,247,382</u>	<u>957,856</u>
Total U.S. Department of Transportation			134,957,784	1,345,827
U.S. Department of Justice				
Passed through North County Lifeline:				
Services for Trafficking Victims				
	16.320	2015-VT-BX-K026	1,329	-
Direct Programs:				
National Institute of Justice Research, Evaluation, and Development Project Grants				
	16.560	n/a	26,065	-
Second Chance Act Reentry Initiative				
	16.812	n/a	21,673	-
Smart Prosecution Initiative				
	16.825	n/a	<u>70,377</u>	<u>15,692</u>
Total U.S. Department of Justice			119,444	15,692
U.S. Department of Education				
Passed through South Bay Community Services:				
Innovative Approaches to Literacy, Full-service Community Schools; and Promise Neighborhoods				
	84.215	U215N120024	97,121	-
U.S. Department of Health and Human Services				
Passed through San Diego Youth and Community Services:				
Teenage Pregnancy Prevention Program				
	93.297	1TP1AH0001100300	<u>75,000</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 135,249,349</u>	<u>\$ 1,361,519</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, 2018

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of SANDAG for the year ended June 30, 2018. 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.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. SANDAG has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments or the principles contained in Title 2 U.S. Code of Federal Regulations Part 200, 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 state and local funds when federal funds are not received in a timely manner. Upon receipt of federal funds, SANDAG reimburses state and 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.

NOTE 2 – MATCHING COSTS

The nonfederal share of program costs (matching costs) are not included in the accompanying schedule.

SAN DIEGO ASSOCIATION OF GOVERNMENTS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2018

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified? Yes No

Significant deficiencies identified not considered to be material weaknesses? Yes None reported

Type of auditor’s report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes No

Identification of major federal programs:

CFDA Numbers

20.205

20.513, 20.516, 20.521

20.500, 20.507, 20.526

Highway Planning and Construction Cluster

Transit Services Programs Cluster

Federal Transit Cluster

Dollar threshold used to distinguish between type A and type B programs:

\$3,000,000

Auditee qualified as low-risk auditee? Yes No

SAN DIEGO ASSOCIATION OF GOVERNMENTS

Independent Accountant's Report
On Applying Agreed-Upon Procedures

Fiscal year ended June 30, 2018

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED UPON PROCEDURES

Management
San Diego Association of Governments
San Diego, California

The Federal Transit Administration (FTA) has established the following standards with regard to the data reported to it in the Federal Funding Allocation Statistics form (FFA-10) of the San Diego Association of Governments (SANDAG) annual National Transit Database (NTD) report:

- A system is in place and maintained for recording data in accordance with NTD definitions. The correct data are being measured and no systematic errors exist.
- A system is in place to record data on a continuing basis, and the data gathering is an ongoing effort.
- Source documents are available to support the reported data and are maintained for FTA review and audit for a minimum of three years following FTA's receipt of the NTD report. The data are fully documented and securely stored.
- A system of internal controls is in place to ensure the data collection process is accurate and that the recording system and reported comments are not altered. Documents are reviewed and signed by a supervisor, as required.
- The data collection methods are those suggested by FTA or otherwise meet FTA requirements.
- The deadhead miles, computed as the difference between the reported total actual vehicle miles data and the reported total actual vehicle revenue miles (VRM) data, appear to be accurate.
- Data is consistent with prior reporting periods and other facts known about SANDAG's operations.

We have applied the procedures, as described in Attachment A, to the data contained in the accompanying FFA-10 for the fiscal year ending June 30, 2018. Such procedures, which were agreed to and specified by FTA in the Declarations section of the *2018 Policy Manual* and were agreed to by SANDAG, were applied to assist SANDAG in evaluating whether SANDAG complied with the standards described in the first paragraph of this part and that the information included in the NTD report FFA-10 for the fiscal year ending June 30, 2018 is presented in conformity with the requirements of the *Uniform System of Accounts (USOA) and Records and Reporting System; Final Rule*, as specified in 49 CFR Part 630, Federal Register, January 15, 1993 and as presented in the *2018 Policy Manual*. SANDAG's management is responsible for the FFA-10 and compliance with NTD requirements. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures in Attachment A were applied separately to each of the information systems used to develop the reported actual vehicle revenue miles (VRM), fixed guideway (FG), directional route miles (DRM), passenger miles traveled (PMT) and operating expenses (OE) of SANDAG for the fiscal year ending June 30, 2018 for each of the following modes:

- Vanpool – purchased transportation

(Continued)

In performing the procedures, except for the information identified in Attachment A to this report, no matters came to our attention that would be required to be reported to you regarding the information included in the NTD report on the FFA-10 Form for the fiscal year ending June 30, 2018. This agreed-upon procedures engagement was conducted 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, the objective of which would be the expression of an opinion or conclusion, respectively, on conformity with the requirements of the *Uniform System of Accounts (USOA) and Records and Reporting System; Final Rule*, as specified in 49 CFR Part 630, Federal Register, January 15, 1993 and as presented in the *2018 Policy Manual*. 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 relates only to the information described above, and does not extend to SANDAG's financial statements taken as a whole, or the forms in SANDAG's NTD report other than the FFA-10 form, for any date or period.

This report is intended solely for the information and use of management of SANDAG and the FTA and is not intended to be and should not be used by anyone other than these specified parties.



Crowe LLP

Costa Mesa, California
March 13, 2019

Attachment A

- a. Obtain and read a copy of written system procedures for reporting and maintaining data in accordance with NTD requirements and definitions set forth in 49 CFR Part 630, Federal Register, dated January 15, 1993, and as presented in the 2018 Policy Manual. If there are no procedures available, discuss the procedures with the personnel assigned responsibility for supervising the NTD data preparation and maintenance.

Procedure performed without exception.

- b. Discuss the procedures (written or informal) with the personnel assigned responsibility of supervising the preparation and maintenance of NTD data to determine:
 - The extent to which the transit agency followed the procedures on a continuous basis; and
 - Whether these transit personnel believe such procedures result in accumulation and reporting of data consistent with NTD definitions and requirements set forth in 49 CFR Part 630, Federal Register, dated January 15, 1993, and as presented in the 2018 Policy Manual.

Procedure performed without exception.

- c. Ask these same personnel about the retention policy that the transit agency follows as to source documents supporting NTD data reported on the Federal Funding Allocation Statistics form.

Per inquiry with SANDAG Vanpool Staff (“Staff”), NTD source documentation is maintained for a minimum of 10 years.

- d. Based on a description of the transit agency’s procedures from items (A) and (B) above, identify all the source documents that the transit agency must retain for a minimum of three years. For each type of source document, haphazardly select three months out of the year and determine whether the document exists for each of these periods.

Selected source documents from three different months from fiscal years 2015, 2016, and 2017 to ensure documents were retained for a minimum of three years. Procedure performed without exception.

- e. Discuss the system of internal controls. Inquire whether separate 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 these individuals perform such reviews.

Per inquiry with SANDAG Staff, Staff are responsible for compiling and processing NTD data. SANDAG’s Principal Regional Planner reviews monthly vanpool vendor activity and annually reviews and approves spreadsheets summarizing passenger mile and vehicle revenue mile data for NTD reporting purposes, which is prepared by Staff.

- f. Select a random sample of three source documents and determine whether supervisors’ signatures are present as required by the system of internal controls. If supervisors’ signatures are not required, inquire how personnel document supervisors’ reviews.

Randomly selected three source documents (survey samples and results) from September, January, and June 2018. Signatures are not required on source documents. The Principal Regional Planner reviews the spreadsheets summarizing data from source documents prior to the submission to NTD annually.

- g. Obtain the worksheets used to prepare the final data that the transit agency transcribes onto the Federal Funding Allocation Statistics form. Compare the periodic data included on the worksheets to the periodic summaries prepared by the transit agency. Recalculate the arithmetical accuracy of the summaries.

Procedure performed without exception.

- h. Discuss the procedure for accumulating and recording passenger miles traveled (PMT) data in accordance with NTD requirements with transit agency staff. Inquire whether the procedure is one of the methods specifically approved in the 2018 Policy Manual.

Per inquiry with SANDAG Staff, the sampling method is in accordance with NTD requirements.

- i. Discuss with transit agency staff the transit agency's eligibility to conduct statistical sampling for PMT data every third year. Determine whether the transit agency meets NTD criteria that allow transit agencies to conduct statistical samples for accumulating PMT data every third year rather than annually. Specifically:
- According to the 2010 Census, the public transit agency serves an UZA with a population less than 500,000.
 - The public transit agency directly operates fewer than 100 revenue vehicles in all modes in annual maximum revenue service (VOMS) (in any size UZA).
 - Service purchased from a seller is included in the transit agency's NTD report.
 - For transit agencies that meet one of the above criteria, observe the NTD documentation for the most recent mandatory sampling year and determine that statistical sampling was conducted and meets the 95 percent confidence and ± 10 percent precision requirements.
 - Determine how the transit agency estimated annual PMT for the current report year.

Per inquiry with SANDAG Staff, SANDAG is not eligible to conduct statistical sampling for PMT data every third year.

- j. Obtain a description of the sampling procedure for estimation of PMT data used by the transit agency. Obtain a copy of the transit agency's working papers or methodology used to select the actual sample of runs for recording PMT data. If the transit agency used average trip length, determine that the universe of runs was the sampling frame. Determine that the methodology used to select specific runs from the universe resulted in a random selection of runs. If the transit agency missed a selected sample run, determine that a replacement sample run was random. Determine that the transit agency followed the stated sampling procedure.

Obtained the sampling procedure and methodology for PMT data noting random selection is used. Per inquiry with SANDAG Staff, if a selected sample run is missed, the vanpool driver is asked to complete the trip information the following business day that the vanpool is operating.

- k. Select a random sample of three source documents for accumulating PMT data and determine that the data are complete (all required data are recorded) and that the computations are accurate. Select a random sample of the accumulation periods and re-compute the accumulations for each of the selected periods. List the accumulations periods that were tested. Test the arithmetical accuracy of the summary.

Selected source documents from September 2017, January 2018, and June 2018 and performed procedure without exception. Recalculated PMT for each month in fiscal year 2018, resulting in total variance of 0.8%.

- l. Discuss the procedures for systematic exclusion of charter, school bus, and other ineligible vehicle miles from the calculation of actual vehicle revenue miles with transit agency staff and determine that they follow the stated procedures. Select a random sample of three source documents used to record charter and school bus mileage and test the arithmetical accuracy of the computations.

Per inquiry with SANDAG Staff, SANDAG does not operate charter or school bus services. As such, the procedure was not performed.

- m. For actual vehicle revenue mile (VRM) data, document the collection and recording methodology and determine that deadhead miles are systematically excluded from the computation. This is accomplished as follows:
- If actual VRMs are calculated from schedules, document the procedures used to subtract missed trips. Select a random sample of three days that service is operated and re-compute the daily total of missed trips and missed VRMs. Test the arithmetical accuracy of the summary.
 - If actual VRMs are calculated from hubodometers, document the procedures used to calculate and subtract deadhead mileage. Select a random sample of three hubodometer readings and determine that the stated procedures for hubodometer deadhead mileage adjustments are applied as prescribed. Test the arithmetical accuracy of the summary of intermediate accumulations.
 - If actual VRMs are calculated from vehicle logs, select random samples of three vehicle logs and determine that the deadhead mileage has been correctly computed in accordance with FTA definitions.

Per inquiry with SANDAG Staff, VRMs are calculated from vehicles logs. We obtained the vehicle logs and observed that the deadhead mileage was correctly computed.

- n. For rail modes, observe the recording and accumulation sheets for actual VRMs and determine that locomotive miles are not included in the computation.

This procedure was not applicable as SANDAG does not have rail modes. As such, the procedure was not performed.

- o. If fixed guideway or High Intensity Bus directional route miles (FG or HIB DRM) are reported, interview the person responsible for maintaining and reporting the NTD data whether the operations meet FTA definition of fixed guideway (FG) or High Intensity Bus (HIB) in that the service is:
- Rail, trolleybus (TB), ferryboat (FB), or aerial tramway (TR) or Bus (MB) service operating over exclusive or controlled access rights-of-way (ROW);
 - Bus (MB, CB, or RB) service operating over exclusive or controlled access rights-of-way (ROW); and
 - Access is restricted;
 - Legitimate need for restricted access is demonstrated by peak period level of service D or worse on parallel adjacent highway;
 - Restricted access is enforced for freeways; priority lanes used by other high occupancy vehicles (HOV) (i.e., vanpools (VP), carpools) must demonstrate safe operation; and
 - High Occupancy/Toll (HO/T) lanes meet FHWA requirements for traffic flow and use of toll revenues. The transit agency has provided the NTD a copy of the State's certification to the U.S. Secretary of Transportation stating that it has established a program for monitoring, assessing, and reporting on the operation of the HOV facility with HO/T lanes.

This procedure was not applicable as SANDAG does not report FG or HIB. As such, the procedure was not performed.

- p. Discuss the measurement of FG and HIB DRM with the person reporting NTD data and determine that the he or she computed mileage in accordance with FTA definitions of FG/HIB and DRM. Inquire of any service changes during the year that resulted in an increase or decrease in DRMs. If a service change resulted in a change in overall DRMs, re-compute the average monthly DRMs, and compare the total to the FG/HIB DRM reported on the Federal Funding Allocation Statistics form.

This procedure was not applicable as SANDAG does not report FG or HIB. As such, the procedure was not performed.

- q. Inquire 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. The transit agency should document the interruption.
 - If the improvements cause a service interruption on the FG/HIB DRMs lasting more than 12 months, the transit agency should contact its NTD validation analyst to discuss. FTA will make a determination on how to report the DRMs.

This procedure was not applicable as SANDAG does not report FG or HIB. As such, the procedure was not performed.

- r. Measure FG/HIB DRM from maps or by retracing route.

This procedure was not applicable as SANDAG does not report FG or HIB. As such, the procedure was not performed.

- s. Discuss whether other public transit agencies operate service over the same FG/HIB as the transit agency. If yes, determine that the transit agency coordinated with the other transit agency (or agencies) such that the DRMs for the segment of FG/HIB are reported only once to the NTD on the Federal Funding Allocation form. Each transit agency should report the actual VRM, PMT, and OE for the service operated over the same FG/HIB.

This procedure was not applicable as SANDAG does not report FG or HIB. As such, the procedure was not performed.

- t. Obtain and observe the FG/HIB segments form. Discuss the Agency Revenue Service Start Date for any segments added in the 2018 report year with the persons reporting NTD data. This is the commencement date of revenue service for each FG/HIB segment. Determine that the date reported is the date that the agency began revenue service. This may be later than the Original Date of Revenue Service if the transit agency is not the original operator. If a segment was added for the 2018 report year, the Agency Revenue Service Date must occur within the transit agency's 2018 fiscal year. Segments are grouped by like characteristics. Note that for apportionment purposes, under the State of Good Repair (§5337) and Bus and Bus Facilities (§5339) programs, the 7-year age requirement for fixed guideway/High Intensity Busway segments is based on the report year when the segment is first reported by any NTD transit agency. This pertains to segments reported for the first time in the current report year. Even if a transit agency can document an Agency Revenue Service Start Date prior to the current NTD report year, FTA will only consider segments continuously reported to the NTD.

This procedure was not applicable as SANDAG does not report FG or HIB. As such, the procedure was not performed.

- u. Compare operating expenses with audited financial data after reconciling items are removed.

Procedure performed without exception.

- v. If the transit agency purchases transportation services, interview the personnel reporting the NTD data on the amount of PT generated fare revenues. The PT fare revenues should equal the amount reported on the Contractual Relationship form.

Procedure performed without exception.

- w. If the transit agency's report contains data for PT services and assurances of the data for those services is not included, obtain a copy of the IAS-FFA data of the PT service. Attach a copy of the statement to the report. Note as an exception if the transit agency does not have an Independent Auditor Statement for the PT data.

SANDAG's report contains data for PT services, therefore the IAS is not applicable.

- x. If the transit agency purchases transportation services, obtain a copy of the PT contract and determine that the contract specifies the public transportation services to be provided; the monetary consideration obligated by the transit agency or governmental unit contracting for the service; the period covered by the contract (and that this period overlaps the entire, or a portion of, the period covered by the transit agency's NTD report); and is signed by representatives of both parties to the contract. Interview the person responsible for retention of the executed contract, and determine that copies of the contracts are retained for three years.

SANDAG contracts with two vendors for vanpool services. Procedure performed without exception.

- y. If the transit agency provides service in more than one UZA, or between an UZA and a non-UZA, inquire of the procedures for allocation of statistics between UZAs and non-UZAs. Obtain and observe the FG segment worksheets, route maps, and urbanized area boundaries used for allocating the statistics, and determine that the stated procedure is followed and that the computations are correct.

SANDAG provides service in more than one UZA and non-UZA. Per inquiry with SANDAG Staff, SANDAG reports its statistics under the Primary UZA: 15 – San Diego, CA. Observed the FFA-10 noting the procedure was followed.

- z. Compare the data reported on the Federal Funding Allocation Statistics Form to data from the prior report year and calculate the percentage change from the prior year to the current year. For actual VRM, PMT or OE data that have increased or decreased by more than 10 percent, or FG DRM data that have increased or decreased. Interview transit agency management regarding the specifics of operations that led to the increases or decreases in the data relative to the prior reporting period.

Compared the current year FFA-10 data to the prior year report and calculated the percentage change from the prior year to the current year. There were no increases or decreases in VRM, PMT, or OE greater than 10 percent and no changes in FG DRM data.

- aa. The accountant should document the specific procedures followed, documents observed, and tests performed in the work papers. The work papers should be available for FTA review for a minimum of three years following the NTD report year. The accountant may perform additional procedures, which are agreed to by the accountant and the transit agency, if desired. The accountant should clearly identify the additional procedures performed in a separate attachment to the statement as procedures that were agreed to by the transit agency and the accountant but not by FTA.

Procedure performed without exception.

SAN DIEGO ASSOCIATION OF GOVERNMENTS

**INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES**

Year Ended June 30, 2018

INDEPENDENT ACCOUNTANT'S REPORT ON
APPLYING AGREED-UPON PROCEDURES

Management
San Diego Association of Governments
San Diego, California

We have performed the procedures enumerated below, which were agreed to by management of the San Diego Association of Governments ("SANDAG"), related to 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, 2018. SANDAG's management is responsible for its compliance with those requirements. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representations regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures and findings are as follows:

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

Procedure performed without exception.

2. Obtain from SANDAG the applicable approved Regional Transportation Improvement Program (RTIP).

Procedure performed without exception.

3. Inquire of the City's management to determine if the City maintains a separate fund for Toll Bridge revenues. If no separate fund is maintained, interview City management and inquire how the City maintains separate accountability for Toll Bridge revenues.

Per inquiry with City accounting staff, a separate fund, Fund 215, is used for Toll Bridge revenues.

4. Obtain the detailed general ledger for Toll Bridge fund revenues and expenditures from the City of the fiscal year ended June 30, 2018.

Procedure performed without exception.

5. Obtain from the City the Annual Schedule of Status of Funds by Project (Schedule A) for the fiscal year ended June 30, 2018. Observe that Schedule A includes a beginning balance, funds received, expenditures, interest income, appropriations, fund returns, adjustments, and an ending balance listed alpha-numerically by Metropolitan Planning Organization Identification Number (MPO ID) and project name.

Procedure performed without exception.

(Continued)

- a. Trace the projects reported on Schedule A to the RTIP.

Procedure performed without exception.

- b. Read footnotes to Schedule A and inquire with SANDAG management if footnotes are sufficient and appropriate. Obtain revised footnotes to Schedule A if requested by SANDAG management.

This procedure was not applicable as there were no footnotes to Schedule A. As such, the procedure was not performed.

- c. Tie the beginning balance to the prior year ending balance. If variances exist, observe that a footnote to Schedule A addresses the difference. Inquire whether reasons for differences are valid with SANDAG management.

Procedure performed without exception. No variances were identified.

- d. Obtain a listing of Toll Bridge payments made to the City from SANDAG for the fiscal year ended June 30, 2018, if any. Compare the revenue recorded in the fund by the City to the listing of payments received.

This procedure was not applicable as there were no Toll Bridge payments made to the City from SANDAG during the year ended June 30, 2018. As such, the procedure was not performed.

- e. Inquire with the City if non-Toll Bridge activity is reported separate from Toll Bridge activity in Schedule A.

Per inquiry with City accounting staff, non-Toll Bridge activity is reported separate from Toll Bridge activity on Schedule A.

- f. Tie the interest income reported on Schedule A and to the City's general ledger.

Procedure performed without exception.

- g. Obtain the listing of Toll Bridge expenditures for the fiscal year ended June 30, 2018.

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

Procedure performed without exception.

- ii. Select individual expenditures from the general ledger that are greater than 25% of the total dollar amount of expenditures and trace to supporting documentation (i.e. invoice, copy of check or EFT wire).

Four expenditures were selected totaling \$37,996 or 43% of the total dollar amount of expenditures. Procedure performed without exception.

- iii. For the expenditures selected, identify the MPO ID that the expenditures are charged against. Observe that the MPO ID is included in the RTIP. Compare the category of the expenditure selected to the categories of allowable expenditures per the Agreement.

Procedure performed without exception.

- iv. If expenditures identified in step 5.g.iii are not within the categories of allowable expenditures, inquire and document the City management's plan to cure such expenditures. Select the next 5 largest dollar transactions and perform procedures in ii and iii above. If the additional expenditure selections are not within the categories of allowable expenditures, inquire with SANDAG management to determine whether additional procedures are required.

This procedure was not applicable as the expenditures selected in procedure 5.g.iii. above were within the categories of allowable expenditures. As such, the procedure was not performed.

- v. Inquire with management whether indirect costs are allocated to projects included in the RTIP. Inquire and document the indirect cost rate allocated and the basis of the allocation and whether the City's indirect cost plan has been reviewed by a cognizant agency. If not, then inquire and document the year the indirect cost plan was last updated, the methodology used, and the year the methodology was last reviewed by SANDAG.

Per inquiry with City accounting staff, indirect costs are not allocated to projects included in the RTIP.

- h. Obtain a list of completed projects by the project number and MPO ID and their ending balances from the City for the fiscal year ended June 30, 2018.

This procedure was not applicable as there were no projects completed during the year ended June 30, 2018. As such, procedures i. through iv. below were not performed.

- i. If the balance of a completed project has been transferred to another Toll Bridge-eligible project, observe that a footnote to Schedule A is presented and obtain a signed staff report or resolution from the City's governing body that gives consent to the transfer of funds from one project to another in accordance with SANDAG Board Policy No. 031, Rule #17, Section III.
- ii. If the balance of a completed project has not been transferred to another Toll Bridge-eligible project, observe that a footnote to Schedule A is presented that includes the subsequent fiscal year's intended action in accordance with SANDAG Board Policy No. 031, Rule #17, Section III.
- iii. If the ending balance of a completed project is negative, observe that 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.
- iv. Observe that projects identified as completed in the previous fiscal year are not presented in the Schedule A for the current fiscal year.

6. Obtain the Cumulative Schedule of Status of Funds by Project (Schedule B) from the City that includes columns for funds received, expenditures incurred, interest income, appropriations, fund returns, and an ending balance listed alpha-numerically by MPO ID.

Procedure performed without exception.

- a. Observe that all Coronado Toll bridge projects are listed by comparing the list of projects to the previous year's Schedule B and any new projects listed in the RTIP.

Procedure performed without exception.

(Continued)

- b. Observe that projects are appropriately classified as “open” or “completed” based on the classification in the previous year’s Schedule B and current year Schedule A.

Procedure performed without exception.

- c. Tie the ending balances for each open project to Schedule A.

Procedure performed without exception.

7. Obtain the prior year’s agreed-upon procedures report. Inquire with City and SANDAG management and document status of exceptions noted in the prior year report.

This procedure was not applicable as there were no exceptions noted in the prior year agreed-upon procedures report. As such, the procedure was not performed.

8. Inquire with the City’s management and document the response to exceptions noted in the procedures above.

This procedure was not applicable as there were no exceptions noted in the procedures above. As such, the procedure was not performed.

This agreed-upon procedures engagement was conducted 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, 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.

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 the specified parties.


Crowe LLP

Costa Mesa, California
March 12, 2019

CITY OF CORONADO, CALIFORNIA
Coronado Toll Bridge Fund
 Schedule of Status of Funds by Project
 Year Ended June 30, 2018

MPO ID	CIP Number	Project Name	Project Status	Funds	Interest	Project	City	Funds	Adjustments	Project Status
			July 1, 2017	Received	Income	Expenditures	Appropriations	Returned		June 30, 2018
<i>Coronado Toll Bridge Fund</i>										
		<i>Toll Funds Available</i>	\$ 6,164,329	\$ -	\$ 105,945	\$ -	\$ (1,000,000)	\$ -	\$ -	\$ 5,270,274
<i>Programmed Projects</i>										
COR 14	12010	Third Street, Fourth Street, and I Avenue Drainage Improvements	839,237	-	-	(15,083)	-	-	-	824,154
COR 19	10011	Coronado Gateway (SR 75/282 Toll Removal Mitigation Toll Plaza)	561,088	-	-	(50,537)	1,000,000	-	-	1,510,551
COR 23	17024	Street Lighting 3rd & 4th	<u>544,304</u>	<u>-</u>	<u>-</u>	<u>(23,470)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>520,834</u>
		Total Programmed Projects	1,944,629	-	-	(89,090)	1,000,000	-	-	2,855,539
		Reconciling Item for GASB 31	<u>(11,921)</u>	<u>-</u>	<u>(3,036)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,957)</u>
		Total	<u>\$ 8,097,037</u>	<u>\$ -</u>	<u>\$ 102,909</u>	<u>\$ (89,090)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,110,856</u>

(Continued)

SCHEDULE B

CITY OF CORONADO, CALIFORNIA
Coronado Toll Bridge Fund
 Cumulative Schedule of Status of Funds by Project
 Year Ended June 30, 2018

MPO ID	CIP Number	Project Name	Funds Received	Interest Income	Project Expenditures	City Appropriations	Funds Returned	Project Status June 30, 2018
Coronado Toll Bridge Fund								
<i>Toll Funds</i>			\$ 10,626,251	\$ 2,071,237	\$ -	\$ (13,796,587)	\$ 6,369,373	\$ 5,270,274
Open Projects:								
Programmed Projects								
COR 14	12010	Third Street, Fourth Street, and I Avenue Drainage Improvements	-	-	(75,846)	900,000	-	824,154
COR 19	10011	SR 75/282 Toll Removal Mitigation (Toll Plaza)	-	-	(328,633)	1,839,184	-	1,510,551
COR 23	17024	Street Lighting at 3rd & 4th	-	-	(29,166)	550,000	-	520,834
Total programmed projects			-	-	(433,645)	3,289,184	-	2,855,539
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 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	-	-
COR 13	08011	Pomona, Seventh and Adella Roundabout	-	-	(1,008,585)	1,200,000	(191,415)	-
COR 15	12002	Traffic Modeling Study	-	-	(48,305)	50,000	(1,695)	-
COR 16	14026	Traffic Calming Study	-	-	(50,000)	50,000	-	-
Total Completed Projects			336,661	-	(4,474,691)	10,507,403	(6,369,373)	-
Sub-Total Funds Received & Project Expenditures			10,962,912	2,071,237	(4,908,336)	-	-	8,125,813
Reconciling Item for GASB 31			-	(14,957)	-	-	-	(14,957)
Total Cumulative Toll Bridge Fund Programmed Projects			\$ 10,962,912	\$ 2,056,281	\$ (4,908,336)	\$ -	\$ -	\$ 8,110,856

Agenda Item 5 — Attachment 4:

FY 2018 Transportation Development Act Audit Reports

The full document in electronic format can be downloaded at sandag.org/index.asp?meetingid=5214&fuseaction=meetings.detail.

A reference copy will be available at the meeting. For a printed copy, please contact the Public Information Office at (619) 699-1950 or pio@sandag.org.

April 12, 2019

Quarterly Internal Audit Program Update

Overview

The SANDAG Internal Audit Program includes a variety of audit services to assist management with the evaluation and improvement of the effectiveness of its risk management, control, and governance processes. Staff will provide an update on internal audit activities conducted during the third quarter of FY 2019.

Key Considerations

The FY 2019 Annual Internal Audit Plan primarily is composed of performance audits and follow-up to prior audits. The Plan also includes resources available for management requests.

During the third quarter of FY 2019, SANDAG internal auditors completed three performance audits, three follow-ups to prior audits, two non-audit engagements and currently are working on four assignments. The completed audits identified recommendations for operational improvements related to the Mobility Management and Project Implementation, Administration, and Finance Departments. Management generally agreed with the results and developed corrective actions to address the findings noted in the audit reports. The completed follow-ups indicate that management has made progress with its corrective actions related to the Small Business Program, labor compliance, toll violations, and public records requests.

The FY 2019 Internal Audit Activity Report (Attachment 1) provides additional information regarding completed and in-progress activities.

Next Steps

Staff will continue to perform audit services included in the Plan and provide status reports to the Audit Committee as requested.

Kim Kawada, Chief Deputy Executive Director

Key Staff Contact: Steve Castillo, (619) 699-0725, steve.castillo@sandag.org

- Attachments:
1. Internal Audit Activity Report for Third Quarter FY 2019
 2. Job Order Contracting Performance Audit Report
 3. North County Transit District Bombardier Flagging Costs Incurred Cost Audit Report
 4. Cash Liquidity Practices Performance Audit Report
 5. Memo - Small Business Program and Labor Compliance Performance Audit
 6. Memo - South Bay Expressway Toll Violation Performance Audit
 7. Memo - Public Records Request Performance Audit

Action: **Information**

Staff will provide an update on internal audit activities conducted during the third quarter of FY 2019.

Fiscal Impact:

The Internal Audit Program is funded as direct costs to Overall Work Program or Capital Improvement Program projects that benefit from the audits and indirect costs for audits that focus on agency-wide operations and compliance activities.

Schedule/Scope Impact:

During the third quarter of FY 2019, SANDAG internal auditors completed three performance audits, three follow-ups to prior audits, two non-audit engagements, and currently are working on four assignments.

Internal Audit Activity Report for Third Quarter FY 2019

Completed Assignments

I. Performance Audits

A. Job Order Contracting dated January 24, 2019 (Attachment 2)

Purpose: The internal auditors evaluated certain aspects of SANDAG Job Order Contracting (JOC) Program. The purpose of the audit was to determine whether SANDAG was following its policies and procedures as they relate to Non Pre-Priced (NPP) work items in job orders.

Audit Results: Our audit revealed that SANDAG generally follows its policies and procedures related to NPP work items. However, we identified two areas that could benefit from improvements to SANDAG internal procedures. First, certain practices involving profit calculation and documenting negotiations for NPP work should be reviewed to determine whether SANDAG can improve its oversight in this area. Second, SANDAG should consider changing its current procedure of not forwarding contract change orders (CCOs) to Contracts & Procurement for approval.

Additionally, our audit research noted that several public agencies establish limits on the quantity and/or value of NPP work items that should be included in job orders before additional approvals are necessary.

Recommendations: The audit recommended that SANDAG:

- Review its procedures for calculating and documenting profit negotiations for NPP work to ensure profit margins are adequate;
- Collaborate (Mobility Management and Project Implementation Department (MMPI) with Administration Department) on the most effective method to address the review of CCOs to ensure compliance with procurement requirements; and
- Determine whether NPP limitation procedures should be developed and implemented.

Response to recommendation: MMPI agreed with our recommendations and plans to take steps to determine the best course of action to improve business practices.

B. North County Transit District Bombardier Flagging Payments dated January 29, 2019 (Attachment 3)

Purpose: The purpose of the audit was to determine whether the amounts paid (hourly rates and overtime rates) to Bombardier (through North County Transit District [NCTD]) were in compliance with the agreement between NCTD/Bombardier and SANDAG.

Audit Results: Based upon our audit testing, we determined that billed costs totaling \$5,239,672 were supported and in compliance with the applicable Contract provisions.

Recommendation: None. MMPI agreed with the audit results.

C. Cash Liquidity dated March 26, 2019 (Attachment 4)

Purpose: The internal auditors reviewed the process used for assessing and monitoring cash liquidity. The purpose of the audit was to determine whether the current processes and systems are adequate.

Audit Results Our audit revealed that while monitoring liquidity on a quarterly basis has historically been acceptable, SANDAG more recently is experiencing significant and variable cash outflows thereby necessitating the need to monitor liquidity on a more frequent basis.

Recommendations: The audit recommended that SANDAG:

- Should consider procuring a treasury management software solution that will address its current cash management needs as well as being scalable for future enhancements to include the full suite of treasury functionality in one system. As an interim step, should consider expanding the use of the U.S. Bank client portal, PIVOT, to automate the monitoring of liquidity in real time.
- Should compare actual results with projections periodically to more accurately present future cash forecasts.
- Should automate the data transfer process between TTrak (*TransNet* subsidiary ledger) and OneSolution (financial system). As a second phase, SANDAG should explore whether the process of uploading the trustee and investment information into TTrak could be automated.

Response to recommendations: Finance agreed with the recommendations and plans to take steps to address the recommendations.

II. Follow ups

D. Small Business Program and Labor Compliance dated February 7, 2019 (Attachment 5)

Initial Audit Purpose: The purpose of the audit was to evaluate certain aspects of the Disadvantaged Business Enterprises (DBE) and labor compliance programs at SANDAG. The specific objectives were:

- Establish a baseline of program requirements, measure activities against the baseline, identify discretionary activities and develop a framework for executive investment decisions.
- Evaluate the effectiveness of the Bench Program in relation to DBE utilization.
- Evaluate labor compliance with state and federal regulations, roles and responsibilities, and organizational placement

Audit Results: Our audit revealed that SANDAG has an effective Small Business Program that performs required baseline and discretionary activities under the applicable federal regulations. However, we did identify a few areas that need to be addressed.

Recommendations:

- On the advice of Legal, SANDAG should have a decision-making process that it employs whenever an amendment or change order affects the work to be performed on contracts with DBE goals.
- SANDAG management needs to determine where they want the final authority over DBE issues to reside.
- SANDAG should evaluate whether alternative strategies to foster small business participation can be implemented to increase race-neutral utilization.
- SANDAG should enforce all labor compliance activities as required by the applicable labor code.

Response to audit recommendations: Management agreed with our recommendations and has already implemented actions to address some of the noted issues. Management plans to take additional steps to improve business practices to support compliance with state and federal regulations.

Follow-up results: The internal auditors completed its second follow-up of actions taken by the SANDAG MMPI and Administration Departments to address the recommendations contained in the Small Business Program and Labor Compliance Performance Audit report on May 26, 2017. Overall, the follow up concluded SANDAG has made progress with implementing many of its corrective actions and should be able to implement the remaining actions by June 30, 2019.

E. South Bay Expressway Toll Violations dated March 11, 2019 (Attachment 6)

Initial Audit Purpose: Assess and validate whether SBX complies with the applicable California toll evasion violation vehicle codes; and if internal procedures are adequate to process violations in a fair and consistent manner.

Audit Results: The audit revealed that South Bay Expressway (SBX) generally complies with the applicable California vehicle codes and has adequate internal procedures in place to handle toll violation processing. However, during the audit period we found that SBX did not consistently follow some of its procedures, experienced revenue leakage, and collection delays.

Recommendations: The audit recommended that SBX:

- Consider performing a comprehensive review of its overall program to determine whether certain business rules and/or operational activities require modification to reduce toll leakage;
- Review its Franchise Tax Board Tax Intercept participation to determine whether current and past business practices comply with applicable Government Codes related to intercepting taxes within the three-year period; and
- Work with Contracts and Procurement to immediately issue a Request for Proposals to contract with a third-party vendor to obtain out-of-state registration information.

Response to audit recommendations: SBX agreed with the recommendations and has implemented actions to address some of the noted findings. SBX plans to take additional action to further strengthen its business practices.

Follow-up results: The internal auditors completed a six-month follow up of actions taken by the SANDAG Operations Department to address the recommendations contained in the SBX Toll Violations Performance Audit report dated August 17, 2018. Overall, the follow up concluded SBX has made progress with implementing many of its corrective actions and should be able to implement the remaining actions by June 30, 2019.

F. Public Records Request (Attachment 7)

Initial Audit Purpose: Evaluate the adequacy of SANDAG public records request practices. The specific objective was to assess whether the agency's processes comply with the requirements of the California Public Records Act (CPRA).

Audit Results: Except for the issues noted in the Independent Examination of Measure A Revenue Estimate Communications, our audit disclosed that SANDAG is in general compliance with the requirements of the CPRA.

Opportunities for Improvements:

- Update the SANDAG Public Records Request Guidelines
- Consolidate CPRA record keeping
- Consider capturing SANDAG staff time related to fulfilling public records request

Follow-up Results: The internal auditors completed a six-month follow up of actions taken by the SANDAG Office of General Counsel (OGC) to address the recommendations contained in the Public Records Request Performance Audit report on June 1, 2018. We concluded the OGC and Finance have implemented the proposed actions included in the response to the draft report.

III. **Non-audit Service**

G. External Peer Review (California Department of Education) dated January 25, 2019

SANDAG Principal Management Internal Auditor led an external peer review of the California Department of Education. The peer review team reviewed the internal quality control system of California Department of Education's audit organization and conducted tests to determine if the internal quality control system operates to provide reasonable assurance of compliance with applicable auditing standards. The peer review team completed its review and issued the peer review letter on January 25, 2019.

H. Mid-Coast Project Review of DBE Payment Compliance dated December 20, 2018

The purpose of the review is to determine whether Mid-Coast Transit Constructors subcontractor payment adjustments were based on adequate justifications and supported by source documentation and accurately reflected DBE work performed.

Based on our review testing, MCTC provided adequate justifications and supporting documentation to substantiate the sampled adjustments we reviewed. In addition, nothing came to our attention that would suggest MCTC was intentionally moving payments to meet supplement DBE goals. However, we did note that MCTC has been unable to accurately report all payment information in the Contract Information System (CIS) by the timeframes included in their contract and subcontracting plan.

Work in Progress

IV. Performance Audits

- A. Procurement Card/Travel Reimbursement – The purpose of the audit is to determine whether SANDAG is following its policies and procedures as they relate to procurement card usage and travel expenses. Specifically, the audit will assess whether the SANDAG internal quality control system was suitably designed and operating effectively to provide reasonable assurance of compliance with applicable policies and procedures.
- B. MuniServices Contract – The purpose of the audit is to determine whether billed costs complied with contract terms and conditions and to review adequacy of contract oversight and administration.
- C. Billing and Collection of Receivables – The purpose of the audit is to determine if the processes for receivables billing and collection are adequate.

V. Follow up

- A. As-Builts – The first follow-up will review corrective actions taken to address the recommendations contained in the audit report.

Job Order Contracting

Performance Audit Report



Internal Audits
Report 2018-003
November 2018

San Diego
ASSOCIATION OF GOVERNMENTS
MEMO

January 24, 2019

TO: Kim Kawada, Chief Deputy Executive Director
FROM: Steve Castillo, Principal Management Internal Auditor
SUBJECT: Job Order Contracting – Final Audit Report

Please find attached the audit report of SANDAG's Job Order Contracting selected practices. Our audit revealed that SANDAG generally follows its policies and procedures related to Non Pre-Priced (NPP) work items. However, we noted two issues that should be addressed to improve SANDAG's internal procedures. First, SANDAG could strengthen its controls over how profit is calculated and negotiated for NPP work. Second, the practice of omitting Contracts & Procurement's review of contract change orders diminishes the effectiveness of SANDAG's quality control process. Regarding our research of other public agencies, we noted several public agencies establish limits on NPP work items included in job orders but allow these limits to be exceeded under certain conditions and with additional approvals.

In the response to the draft report, Administration and MMPI agreed with our recommendations and plan to take steps to determine the best course of action to improve business practices. We plan to follow-up on these actions to determine whether they addressed the noted issues. Follow-ups are planned to occur six months and one year from the date of this report.

We want to thank all staff for their courtesy and cooperation during this engagement. If you have any questions, please contact me.

cc: Laura Coté, Director of Administration
Jim Linthicum, Director of Mobility Management and Project Implementation

Attachment

Contents

Executive Summary	1
Background	2
Objectives, Scope and Methodology	3
Evaluation of Internal Controls	3
Audit Results	3
Recommendations	8
Attachment I – NPP Profit Calculation Matrix	
Attachment II – Management’s Response to the Draft Report	



Executive Summary

Performance Audit – Job Order Contracting

Audit No. 2018-003

What We Audited

We evaluated certain aspects of SANDAG's Job Order Contracting (JOC) Program. The purpose of the audit was to determine whether SANDAG was following its policies and procedures as they relate to Non Pre-Priced (NPP) work items in job orders. In addition, we researched other public agencies' use of NPP work items to identify any guidance that would be beneficial for SANDAG to consider as part of its JOC Program.

What We Found

Our audit revealed that SANDAG generally follows its policies and procedures related to NPP work items. However, we identified two areas that could benefit from improvements to SANDAG's internal procedures. First, certain practices involving profit calculation and documenting negotiations for NPP work should be reviewed to determine whether SANDAG can improve its oversight in this area. Next, SANDAG should consider changing its current procedure of not forwarding contract change orders (CCOs) to Contracts & Procurement (C&P) for approval. MMPI understands our position but also felt SANDAG should consider other options to ensure CCOs comply with procurement requirements.

Additionally, our audit research noted that several public agencies establish limits on how much NPP work items can be included in job orders before additional approvals are necessary. While not all agencies established these limits, two audit reports we found warned that procurement issues may arise when NPP work is substantial. We believe SANDAG should consider setting limits on how much NPP work should be allowed under job orders.

What We Recommend

SANDAG should perform the following:

- Review its procedures for calculating and documenting profit negotiations for NPP work to ensure profit margins are adequate;
- MMPI and Administration should collaborate on the most effective method to address the reviews of CCOs to ensure compliance with procurement requirements; and
- Determine whether NPP limitation procedures should be developed and implemented

Management agreed with our recommendations and plans to take steps to determine the best course of action to improve business practices.

Background

SANDAG maintains a robust Capital Construction Program as part of its commitment to implement major transit and highway projects throughout the San Diego region. SANDAG partners with Caltrans and the transit operators to deliver construction projects with a goal of relieving congestion. The Mobility Management and Project Implementation (MMPI) Department within SANDAG is primarily responsible for implementing the Capital Construction Program.

In fiscal year 2018, SANDAG made progress with its capital projects that included transit, highways, and bikeways. SANDAG utilizes several procurement methods to help deliver these projects including the Job Order Contracting (JOC) Program. JOC is used as an alternative to traditional procurement methods and is typically used for minor routine or recurring construction, or for the renovation, alteration, or repair of existing public facilities. A job order contract is a competitively bid, firm fixed price, indefinite quantity contract that is based upon specific unit pricing contained in a unit price book (prepared by independent commercial sources) setting forth detailed repair and construction items of work, including descriptions, specifications, units of measurement and individual unit prices for each item of work. The job order contracts include unit pricing for work at time of award, but not the specific quantity and location of the work to be performed.

SANDAG initiated the JOC program in 2008, and it has been used to complete many projects since inception. JOC allows SANDAG to fast-track construction projects as it permits projects to be completed under a single, competitively awarded contract, rather than going through the procurement process for each individual project. This can be a major benefit of JOC as it saves time and money in the procurement stage of the project. SANDAG has established policies and procedures for properly administering the JOC Program. Board Policy No. 024, Procurement and Contracting – Construction provides the framework for job order

contracts and job order tasks. SANDAG's Procurement Manual provides specific requirements and procedures that need to be followed by staff.

The job order procurement process generally includes the following steps:

- SANDAG staff and the contractor meet to discuss the project scope, work schedule, estimated quantities, and other relevant project issues.
- SANDAG will issue a Request for Job Order Proposal and a draft Detailed Scope of Work which requires that the contractor prepare a Job Order Proposal for the Work under consideration.
- The contractor will prepare, via the Gordian® software system, a Job Order Proposal which shall include but not be limited to:
 1. Firm fixed-price Job Order Price Proposal, calculated from either Pre-priced Work Tasks or NPP Work Tasks.
 2. Construction Schedule
 3. Subcontractor List
- SANDAG staff will review the proposal and work with the contractors to ensure they have an agreed upon job order before work is commenced.

Pre-priced Work Tasks shall identify the type and number of work units required from the Construction Task Catalog®. The price per unit set forth in the Construction Task Catalog® when multiplied by the quantity required and the contractor's applicable Adjustment Factor shall serve as the total price to be paid for each pre-priced item of work identified in the Job Order Detailed Scope of Work. NPP work tasks are units of work not included in the Construction Task Catalog® but within the general scope and intent of the job order. Such work requirements shall be incorporated into and made a part of the job order to which they pertain. NPP work requirements shall be separately identified and submitted in the Job Order Proposal. SANDAG's Contracts & Procurement (C&P) staff has established a quality control process to ensure all job order procurements follow proper procurement

requirements. C&P uses a checklist to verify all required documentation is submitted prior to sending the Notice to Proceed to the contractors.

Recently, C&P had some concerns regarding the use of NPP work items included in some of the job orders. SANDAG's Director of Administration requested that we review this area to identify any guidance regarding the percentage of NPP work items that would be appropriate and eligible under the JOC program.

Objectives, Scope and Methodology

The purpose of the audit was to determine whether SANDAG was following its policies and procedures as they relate to NPP work items in job orders. In addition, we researched other public agencies' use of NPP work items to identify any guidance that would be beneficial for SANDAG to consider as part of its JOC Program.

We completed this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our conclusions and findings based on our audit objectives. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and the records selected. We believe that the evidence obtained provides a reasonable basis for our conclusions.

The scope of the audit was limited to selected performance activities solely for addressing the specific audit objectives. The audit included meetings with staff, evaluation of internal policies and procedures, researching other public agencies' JOC programs, and selected compliance testing. The audit period was from March 1, 2016, through June 30, 2018.

Evaluation of Internal Controls

SANDAG is responsible for establishing and maintaining effective internal controls. In planning and performing the audit, we obtained an understanding of the internal control structure in

relation to the context of the audit objectives. Our consideration of internal controls was not designed to identify all deficiencies in internal controls, but to report internal controls that are significant within the context of the audit objectives based upon the work performed.

Audit Results

Our audit revealed that SANDAG generally follows its policies and procedures related to NPP work items. However, we noted two issues that should be addressed to improve SANDAG's internal procedures. First, SANDAG could strengthen its controls over how profit is calculated and negotiated for NPP work. Second, the practice of omitting C&P's review of contract change orders (CCOs) diminishes the effectiveness of SANDAG's quality control process. Regarding our research of other public agencies, we noted several public agencies establish limits on NPP work items included in job orders but allow these limits to be exceeded under certain conditions and with additional approvals. The detailed results of our audit are shown below:

SANDAG's current practice of allowing the contractors to calculate profit without documenting negotiations provides less assurance SANDAG receives fair and reasonable profit margins

As noted above, JOC contractors can include NPP work in their job order proposals if they believe it's appropriate to accomplish the defined scope of work. SANDAG has established detailed procedures on how to administer NPP Work. Our audit testing focused mainly on procedures related to pricing data in support of the NPP work. We sampled several job orders that included NPP work and tested compliance with the established procedures. The results of our testing indicated that SANDAG was following its procedures but there was no documented evidence that profit was properly negotiated. We also noted some inconsistency with profit margin calculations. By addressing these issues, SANDAG will provide better assurance profit margins are appropriate for the work.

The JOC Special Provisions included in executed contracts provides detailed procedures for NPP work. Some of the relevant procedures related to pricing data in support of the NPP work are:

- Pricing data submitted in support of NPP work units shall include a cost or price analysis report establishing the basis for selecting the approach proposed to accomplish the requirements. Unless otherwise directed by SANDAG, costing data (quotations) will be submitted demonstrating that the contractor sought and received three quotes from different vendors.
- If the contractor will perform the work with its own forces, it shall submit three independent quotes for all material to be installed and shall, to the extent possible, use Pre-Priced Tasks for labor and equipment from the Construction Task Catalog®. If the work is to be subcontracted, the contractor must submit three independent quotes from subcontractors.
- Profit will be negotiated based on the complexity of the work to be performed, the risk undertaken by the contractor, the amount of subcontracting, value of the job, and the contractor's investment. The negotiation of profit shall be based upon criteria described under the NPP Profit Calculation Matrix. The Matrix is included as Attachment I in this audit report.

To test compliance with these requirements, we obtained job order data from March 1, 2016, through June 30, 2018. There were 24 job orders in our audit universe and 12 of them contained NPP work items. We sampled six job orders and reviewed documentation from C&P's contract folders.

Our testing results revealed that SANDAG staff consistently obtained pricing data for NPP work items. The contract documentation showed staff obtained or attempted to obtain three quotes for materials and subcontractor costs for several of the job orders reviewed.

In our review of profit applied to NPP work, we were concerned with how profit margin calculations are being handled for NPP work items included in job

orders. We found no documented evidence that profit margins are being negotiated as required. The current process is to have the construction contractor calculate the profit margin using the Profit Calculation Matrix and have SANDAG staff review the calculations. In almost every instance, the review of the calculation is done by outside construction management firms acting as an extension of SANDAG staff. MMPI stated SANDAG has always relied upon consultants to review contractors' cost proposals, develop independent cost estimates, and even negotiate the value of the work on construction contracts. SANDAG employees have project management responsibilities and provide oversight and guidance to consultants and the work they perform. Ultimately all JOC and JOC change orders are approved by SANDAG staff.

We also noted the use of the Profit Calculation Matrix varied greatly depending on who completed the form. This has resulted in inconsistent calculations of profit margins for similar type costs. We also believe the Matrix form is not being consistently used as intended. Additionally, there may be some questions as to whether profit margins on material cost have already been calculated in the catalog price items related to installing these materials. Given these issues, we recommend SANDAG revisit its practice on how profit margins are calculated and negotiated to ensure the appropriate profit is being paid to the contractors.

The Profit Calculation Matrix is designed to allow staff to determine profit on NPP work items based on the following factors and rating:

Factor	Rate
Degree of Risk	30
Subcontracting	10
Complexity of Work	25
Value of Job	20
Contractor Investment	15
Total Profit (%)	100

The Matrix provides further instruction on what to consider when weighting the various factors. For example, The Degree of Risk factor includes the

following guidelines when determining the weight to be applied to the rating:

Where the NPP work involves no risk, or the degree of risk is very small, the weighting shall be .03; as the degree of risk increases, the weighting shall be increased up to a maximum of .10. Factors SANDAG shall consider include but are not limited to, the nature of the NPP work, method specification or performance specification, where work is to be performed, working conditions, coordination, shop drawings, long lead items, limited work windows, time constraints, amount of labor included, and degree of scope definition.

Each one of the factors includes guidelines on what to consider when determining the weight of the factor. The maximum profit margin shall not exceed 10 percent.

In reviewing the detailed calculation of three profit margins for NPP work items, we noted the following questionable issues:

- Subcontractor factor markups were applied to material costs; however, no subcontractors were used for the work.
- A maximum profit margin of 3 percent was assigned to the Degree of Risk factor for insurance cost. Insurance is strictly a cost; therefore, it does not appear that appropriate justification exists to apply the maximum profit margin.
- A maximum profit margin of 1.5 percent was assigned to the contractor investment factor for the purchase of insurance costs. This does not align with the guidance provided in the Profit Calculation Matrix since other factors should have been weighted for the maximum amount.
- A total profit margin of 8.43 percent was applied to material costs. This margin appears excessive for purchase of train washing parts for the NCTD Train Wash Facility at Stuart Mesa. A maximum profit margin of 3 percent was assigned to the Degree of Risk factor. Is this warranted for replacement of washing parts? A subcontractor margin of .90% was applied when no subcontractor was listed for the NPP work. MMPI staff stated this project was unique

with non-standard parts, procedures and risks that justified the profit margin.

We also found the range of profit for materials, insurance and subcontractor costs varied as shown below:

Cost Type	Low	High
Material	4.05%	8.43%
Insurance	3.75%	7.30%
Subcontractor	5.70%	7.05%

Given the issues noted above, we have concluded contractor staff are most likely not calculating profit margin based on the established guidelines. In addition, it doesn't appear the profit margin reviewers understand how to consistently use the Profit Calculation Matrix form.

We further noted that SANDAG is allowing profit margins on material costs that may have already been included in the Pre-price catalog items associated with installing these materials. Our understanding is that when contractors bid under these JOC contracts, they bid a factor, or "coefficient" as referred to in the industry, applied to each unit price in the Unit Price Book. This factor includes all costs for the installed unit of measure including materials, labor, overhead and profit and sometimes bond and tax. If this is the case, then has profit already been provided to the contractor for installing material costs? Is the additional profit on material costs up to 8.43 percent warranted?

SANDAG needs to ensure its procedures for calculating profit margins for NPP work are adequate. Negotiations related to profit margins need to be documented by SANDAG. We believe the Profit Calculation Matrix is an adequate tool to determine profit if staff consistently follows the established guidelines. SANDAG should also contact the Gordian Group and verify that our current process of allowing profit on NPP work containing material costs is not a duplication of profit included in related Pre-priced catalog items.

SANDAG's current practice of omitting C&P's review of CCOs diminishes the effectiveness of procurement oversight.

As part of our compliance testing, we reviewed procurement documentation in sampled job order tasks and related CCOs. During this review, there were some job orders and CCOs that included sole source justifications for using only one vendor/supplier for certain aspects of the work. In reviewing the sole source documentation, we questioned whether some of them were properly justified. We met with the Interim Manager of C&P to discuss our analysis of this issue and she agreed that some of the sole source justifications may not have met the requirements for using only one vendor/supplier.

We believe the reason for the inadequate sole source justification centered around the lack of review performed by C&P staff. It's our opinion that C&P's quality control process should have identified and addressed these issues before the job order tasks were approved. Subsequently, SANDAG recognized that sole source reviews needed to be improved.

To strengthen its controls over sole source procurements, SANDAG required that the Manager of C&P review and approve sole source procurements effective February 2018. This new control will assist program staff with identifying specific requirements that need to be met before sole source procurements are approved. While we commend SANDAG for strengthening its controls over this area, more needs to be done regarding review of CCO procurement documentation.

During our discussion with C&P staff, it was brought to our attention that job order CCOs are not reviewed by them before they are approved. We believe this practice diminishes the effectiveness of C&P's oversight of procurement activities. We noted that several of the job orders reviewed contained CCOs. As discussed above, job orders also contain sole source procurements that need to be approved by the Manager of C&P. We believe it is C&P's responsibility to ensure sole source requirements are met prior to any execution of the CCOs.

If CCOs are not routed for review by C&P, there is an increased risk that procurement issues, especially approval of sole source documentation, will be missed. We understand that many CCOs are for time only extensions and a review by C&P may not be warranted. However, we suggest SANDAG determine whether selected CCOs should be forwarded to C&P for review based on established criteria. MMPI understands our position but also felt SANDAG should consider other options to ensure CCOs comply with procurement requirements. MMPI and Administration should collaborate on the most effective method to address this issue.

Other public agencies establish certain limits for NPP Item Work to help minimize the risk of improper procurement practices

Our research showed that several government agencies establish not to exceed limits for NPP work but allow these limits to be exceeded only under certain conditions. While not all agencies established these limits, two audit reports we found warned that procurement issues may arise when NPP work is substantial. We believe SANDAG should consider setting limits on how much NPP work should be allowed under job orders. We noted that half of the job orders we included in our sample had NPP work that was a significant part of the overall job order cost.

The United States Army is attributed with initially developing and deploying JOC during the early 1980s. JOC was further developed and validated by the U.S. Department of Defense (DOD). Non-DOD Federal Government entities also began to adopt JOC and continue to do so to this day. Subsequently State, County, and Local Governments, Transportation, Education, and Healthcare entities began to use JOC. The DOD established specific acquisition regulations for JOC procurements. Regarding the NPP work, the Army Federal Acquisition Regulation Supplement (AFARS) provided specific limitations for NPP work as follows:

5117.9004-3 Ordering.

(e) Limitations.

- (1) The value of non-pre-priced work under an order must not exceed 10 percent of the value of the pre-priced work.
 - (i) The value of the pre-priced work must be computed by multiplying the coefficient(s) times the appropriate unit price(s) in the Unit Price Book.
 - (ii) When the contract allows, indirect costs and profit for non-pre-priced work may be attributed by application of a solicited and pre-agreed rate to be applied to the bare labor, equipment, and material costs of the non-pre-priced work.
 - (iii) Description of non-pre-priced work must not be manipulated or forced to fit under a pre-priced line item, either to avoid including non-pre-priced line items in the order or to reduce the value of non-pre-priced line items in an attempt to circumvent the limitation in (e)(2).
- (2) Except as provided in paragraph (3) below, the value of non-pre-priced work under an order shall not exceed 10 percent of the value of the pre-priced work.
- (3) Normally, if the value of the non-pre-priced work exceeds 10 percent, then the non-pre-priced work should be reduced, eliminated or performed in house or the job must be acquired using other contracting methods. However, contracting officers may exceed the 10 percent if the non-pre-priced portion of the order involves urgent or emergency situations or if the contracting officer determines it is a good business decision. The contracting officer shall negotiate the modification and make a determination that the price is fair and reasonable.

We also found the University of California and City of Long Beach adopted similar regulations related to the 10 percent ceiling for NPP work. Additionally, we noted other government agencies do not establish a specific ceiling for NPP work but address the need to ensure NPP work is appropriate. The Long Beach City Auditor issued an audit report addressing deficiencies within the JOC program including findings related to the use of NPP work.

The Internal Audit Director for the City of Tampa also noted issues with the use of NPP work. The following is a summary of some of the issues:

- The substantial use of non-catalog items by the JOC contractors combined with the inconsistency in obtaining valid price comparisons result in the City having very little control over project costs.
- The use of non-catalog items is not only excessive but is also unnecessary. Per Gordian Group, most of the non-catalog items in our project sample could have been priced through the catalog. In some instances, product descriptions were so vague that it was difficult to determine specific items that required use of noncatalog pricing.
- Work performed on JOC projects that were not based on established unit prices is not consistent with the JOC methodology and diminishes its cost effectiveness.
- Because NPP work items have not been competitively bid, their use should be kept to a minimum to ensure the cost effectiveness of the JOC program.
- Limitation on the percentage of NPP items to total project costs should be established with a provision that allows for exceptions with the documented approval of the Director of Purchasing. Unless exempted, projects exceeding the limit should be competitively bid using an alternate procurement method.

While these audit issues are specific to the cities reviewed, it does bring out some relevant points that should be considered by SANDAG. First, the JOC program is designed to use predefined catalog pricing that was competitively bid to ensure prices are reasonable. Second, substantial use of NPP work diminishes the cost effectiveness of the JOC program. Several of the sampled SANDAG job orders we reviewed included NPP work more than 30 percent of the total job order task. We believe limits on the use of NPP work will strengthen the control structure over the JOC program. We also

understand that there will be times that substantial use of NPP work may be necessary. When this occurs, the Manager of C&P should have authority to review and approve the exemptions.

Recommendations

We recommend SANDAG perform the following:

- Review its practices for calculating and documenting profit negotiations for NPP work to ensure profit margins are adequate;
- MMPI and Administration should collaborate on the most effective method to address the reviews of CCOs to ensure compliance with procurement requirements; and
- Determine whether NPP limitation procedures should be developed and implemented.

Management agreed with our recommendations and plans to take steps to determine the best course of action to improve business practices. See Attachment II for Management's response to the draft report.

**SANDAG AGREEMENT No. 50075xx
Job Order No. XX**

JOC Non Pre-Priced (NPP) Items Profit Calculation Matrix

Contract No.:

Calculated By: _____

Job Order No.:

Checked By: _____

Factor	Rate	Weight (variable)	Value
Degree of Risk	30		
Subcontracting	10		
Complexity of Work	25		
Value of Job	20		
Contractor Investment	15		
Total Profit (%)	100		

Based on the circumstances of the Job Order (or Change Order) Non-prepriced (NPP) item of work, each of the above factors shall be weighted from .03 to .10 as indicated below. The value shall be obtained by multiplying the rate by the weight. The fair and reasonable profit for NPP Items of work shall be determined from the value column when totaled. **The maximum percent profit shall not exceed 10%.**

Degree of Risk: Where the NPP work involves no risk, or the degree of risk is very small, the weighting shall be .03; as the degree of risk increases, the weighting shall be increased up to a maximum of .10. Factors SANDAG shall consider include but are not limited to, the nature of the NPP work, method specification or performance specification, where work is to be performed, working conditions, coordination, shop drawings, long lead items, limited work windows, time constraints, amount of labor included, and degree of scope definition.

Subcontracting: When the Contractor will be using subcontractors to perform NPP work, the weighting value shall be inversely proportional to the portion of the work performed by subcontractors. Where 80% or more of the work is to be subcontracted, the weighting shall be .03. Such weighting shall increase proportionally to .10 when all the work is performed by the Contractor's own forces.

Complexity of Work: When the NPP work is most difficult and complex the weighting shall be .10. This shall be proportionately reduced to .03 for the simplest of jobs. Factors SANDAG shall consider, include but are not limited to, the nature of the work, coordination, shop drawings, by whom the work is performed, the location of the work, and time constraints of the work.

Value of Job: Each NPP item in excess of \$100,000 shall be weighted at .10. Work estimated between \$100,000 and \$25,000 shall be proportionately weighed from .10 to .05. Work from \$24,999 to \$5,000 shall be weighted at .04. Work less than \$5,000 shall be weighted at .03.

Contractor Investment: Contractor investment shall be weighted proportionately from .03 to .10. Factors SANDAG shall consider, include but are not limited to, mobilization costs, and contractor advanced funding for materials, shop drawings, fabrication and quality control testing.

San Diego
ASSOCIATION OF GOVERNMENTS
MEMO

January 19, 2019

TO: Steve Castillo, Principal Auditor

FROM: Laura Coté, Director of Administration
Jim Linthicum, Director of Mobility Management and Project Implementation

SUBJECT: Job Order Contracting (JOC) – Draft Audit Report

Thank you for the recommendations regarding the JOC process. It has been a pleasure to work with you regarding this important program and my team remains committed to continuous improvements in this area.

Please see our responses to the following recommendations:

Recommendation 1.

Review its practices for calculating and documenting profit negotiations for NPP work to ensure profit margins are adequate.

Administration

We recognize that the first recommendation regarding procedures to calculate and negotiate profit is currently coordinated by the JOC Office within the MMPI Department, so we will not respond to this item. However, should management wish our team to be more involved with this process we would be happy to support these efforts.

MMPI

We concur with the recommendation. MMPI will immediately begin the process of reviewing existing procedures and will develop proposed revisions for consideration to Executive Management by April 30, 2019.

Recommendation 2.

MMPI and Administration should collaborate on the most effective method to address the reviews of CCOs to ensure compliance with procurement requirements.

Administration

The second recommendation is to revise the practice of CCO review, during which the C&P team would begin reviewing CCOs (particularly those with dollar value changes) prior to approval. We believe we would be able to accommodate this change, however, we request a transition time of 6 months to further assess the impacts of this change on staffing needs. Our initial analysis suggests that this would increase workload by approximately 150 hours per year and it is important to note that due to urgency of these transactions this new process would necessitate that the analyst would be required to shuffle priorities every time a CCO was submitted.

MMPI

We concur with the recommendation. MMPI and Administration will collaborate and develop a mutually acceptable plan to help ensure compliance with procurement requirements by May 31, 2019.

Recommendation 3.

Determine whether NPP limitation procedures should be developed and implemented

Administration

The third recommendation relates to NPP limitation procedures. We support and recommend that these procedures be developed as a joint effort between the JOC Office and C&P. One suggestion in the report is for the Contracts Manager to approve the addition of non-pre-priced items that exceed 10%. Our analysis concludes that this would take an average of an hour of work (due to meetings, etc.) per approval and this is considered achievable with current staffing.

MMPI

We concur with the recommendation. MMPI will develop a White Paper that evaluates why others have determined it necessary to adopt policies or regulations on setting a cap for NPP work. It will assess whether those same reasons, or maybe other reasons might warrant SANDAG adopting a similar policy or requirement. It will conclude with a recommendation to the Executive Team for consideration by Fall 2019.

NCTD/
Bombardier
Flagging Costs

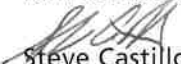
Incurring Cost Audit Report



Internal Audits
Report 2018-002
November 2018

San Diego
ASSOCIATION OF GOVERNMENTS
MEMO

January 29, 2019

To: Kim Kawada, Chief Deputy Executive Director
From:  Steve Castillo, Principal Management Internal Auditor
Subject: Incurred Cost Audit of Bombardier Transportation under Contract No. 5000710

Please find attached the Incurred Cost Audit report of flagging costs paid to North County Transit District (NCTD) for services provided by Bombardier Transportation. The audit was conducted to determine whether costs claimed by and paid to Bombardier were allowable, adequately supported, and in compliance with respective contract provisions. The audit period was from October 6, 2017 through April 30, 2018. During this period, SANDAG paid NCTD a total of \$5,239,672 for flagging services provided by Bombardier.

Based upon our audit testing, we determined that billed costs totaling \$5,239,672 were supported and in compliance with the applicable contract provisions. We provided the draft report to Mobility Management and Project Implementation (MMPI) and they concurred with the audit results. Since there were no reportable findings, MMPI elected not to provide an official response to the draft report.

We want to thank all staff for their courtesy and cooperation during this engagement. If you have any questions, please contact me.

cc: Jim Linthicum, Director of Mobility Management and Project Implementation
Bruce Smith, Principal Engineer, Mobility Management and Project Implementation

Attachment

Contents

Executive Summary	1
Background	1
Objective, Scope and Methodology	2
Evaluation of Internal Controls	2
Audit Results	2

Executive Summary

Results in Brief

In 2004, SANDAG entered into Contract No. 5000710 (Contract) with North County Transit District (NCTD) to document the transition plan for the consolidation of certain functions as required by Senate Bill 1703. Addendum 18 to the Contract sets forth the provisions by which SANDAG will reimburse NCTD for project costs, including flagging. NCTD contracts with Bombardier to provide the flagging services and passes the costs through to SANDAG.

The audit was conducted to determine whether costs claimed by and paid to NCTD/Bombardier were allowable, adequately supported, and in compliance with the respective Contract provisions. The scope of the audit was limited to financial and compliance activities solely for the purpose of determining cost eligibility under the Contract. The audit period was from October 6, 2017 through April 30, 2018. During this period, NCTD/Bombardier was paid a total of \$5,239,672 for flagging costs.

In planning and performing the audit, we considered NCTD's and SANDAG's internal controls for compliance with the requirements related to whether billed costs were allowable, allocable, reasonable, and supported. Consideration of internal controls was not designed to identify all deficiencies in internal controls, but to report internal controls that are significant within the context of the audit objectives based upon the work performed. We did not identify significant internal control weaknesses that resulted in noncompliance with applicable Contract provisions and standard SANDAG procedures.

Based upon our audit testing, we determined that billed costs totaling \$5,239,672 were supported and in compliance with the applicable Contract provisions and federal cost principles. We provided the draft report to Mobility Management and Project Implementation (MMPI) and they concurred with the audit results. Since there were no reportable findings, MMPI elected not to provide an official response to the draft report.

Background

Work performed within NCTD's right-of-way must have a NCTD-supplied flag person. NCTD contracts with Bombardier to provide flagging services. The Contract between SANDAG and NCTD provides for SANDAG to reimburse NCTD when flagging services are required on a SANDAG project within NCTD right-of-way. During the contract performance period, there were some concerns that Bombardier was not paying its employees correct prevailing wage rates as required by the Department of Industrial Relations. NCTD also had concerns that Bombardier was not billing correctly. NCTD notified Bombardier of these concerns and requested that Bombardier review past invoices and issue appropriate corrections. NCTD and Bombardier reached an agreement on April 12, 2018, as to billing rates applicable for their agreement.

MMPI staff requested Internal Audits to review NCTD billed costs to SANDAG to verify whether corrections had been made and confirm amounts paid were in compliance with the agreement

Objective, Methodology and Scope

The purpose of the audit was to determine whether the amounts paid (hourly rates and overtime rates) to Bombardier (through NCTD) were in compliance with the agreement between NCTD/Bombardier and SANDAG.

We completed this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our conclusions and findings based on our audit objectives. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and the records selected. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall presentation. We believe that the evidence obtained provides a reasonable basis for our conclusions.

The scope of the audit was limited to examining flagging costs paid to NCTD/Bombardier for services provided during the period October 6, 2017 through April 30, 2018. We reviewed support for all flagging costs billed during that period.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Evaluation of Internal Controls

NCTD and SANDAG are responsible for establishing and maintaining effective internal controls for compliance with the requirements of the Contract. In planning and performing the audit, we considered NCTD's and SANDAG's internal controls for compliance with the requirements related to whether billed costs were allowable, allocable, reasonable, and supported. We identified and assessed management controls for properly calculating allowable costs in accordance with applicable Contract provisions. Our consideration of internal controls was not designed to identify all deficiencies in internal controls, but to report internal controls that are significant within the context of the audit objectives based upon the work performed.

We did not identify significant internal control deficiencies that resulted in noncompliance with applicable Contract provisions and standard SANDAG procedures.

Audit Results

Based upon our audit testing, we determined that billed costs totaling \$5,239,672 were supported and in compliance with the applicable Contract provisions. We provided the draft report to MMPI on January 28, 2019 and they concurred with the audit results. Since there were no reportable findings, MMPI elected not to provide an official response to the draft report.

This report is intended for the information of SANDAG and MMPI; however, this report is a matter of public record and its distribution is not limited.

Cash Attachment 4

Liquidity Practices

Performance Audit Report



Internal Audits
Report 2018-008
January 2019

San Diego
ASSOCIATION OF GOVERNMENTS

MEMO

March 26, 2019

TO: Kim Kawada, Chief Deputy Executive Director
FROM: Steve Castillo, Principal Management Internal Auditor
SUBJECT: Cash Liquidity Practices Performance Audit – Final Report

Please find attached the audit report of SANDAG's Cash Liquidity Practices. Our audit revealed that while monitoring liquidity on a quarterly basis has historically been acceptable, SANDAG more recently is experiencing significant and variable cash outflows thereby necessitating the need to monitor liquidity on a more frequent basis. Failure to do so could result in the inability to make timely payments or could result in the liquidation of investments prior to maturity, potentially incurring losses. While there have been increased efforts to forecast cash outflows, improvements could be made. It is evident from our audit that SANDAG has not taken advantage of the recent advancements in treasury management software solutions that could automate manual processes thereby resulting in increased productivity and reduced costs.

In the response to the draft report, Finance agreed with our recommendations and has already implemented actions to address some of the noted issues. Finance plans to take additional actions to further strengthen its business practices. We plan to follow-up on these corrective actions to determine whether they were completed by the targeted dates included in the response. Follow-ups are planned to occur six months and one year from the date of this report.

We want to thank all staff for their courtesy and cooperation during this engagement. If you have any questions, please contact me.

cc: André Douzdjian, Director of Finance

Attachment

Contents

Executive Summary	1
Background	2
Objectives, Scope and Methodology	3
Evaluation of Internal Controls	3
Audit Results	3
Recommendations	5
Attachment I – Management’s Response to Draft Report	



Executive Summary

Performance Audit – Process for Assessing Cash Liquidity

Audit No. 2018-008

What We Audited

We audited the process used for assessing and monitoring cash liquidity. The purpose of the audit was to determine whether the current processes and systems are adequate.

What We Found

Our audit revealed that while monitoring liquidity on a quarterly basis has historically been acceptable, SANDAG more recently is experiencing significant and variable cash outflows thereby necessitating the need to monitor liquidity on a more frequent basis. Failure to do so could result in the inability to make timely payments or could result in the liquidation of investments prior to maturity, potentially incurring losses. While there have been increased efforts to forecast cash outflows, improvements could be made. Our audit also revealed that the monthly reconciliation process of the trustee and investment statements, and the entering of the data into SANDAG systems is a time consuming and somewhat duplicated effort.

It is evident from our audit that SANDAG has not taken advantage of the recent advancements in treasury management software solutions that could automate manual processes thereby resulting in increased productivity and reduced costs. In

addition, recent technology enhancements have consolidated cash management, forecasting, risk analysis, and investment account management into one system.

SANDAG should explore technology solutions to replace its manual processes. Best practices indicate that automation of cash flow forecasting (both inflows and outflows) is key and that the goal should be to have all the data in one system.

What We Recommend

SANDAG should consider procuring a treasury management software solution that will address its current cash management needs as well as being scalable for future enhancements to include the full suite of treasury functionality in one system. As an interim step, SANDAG should consider expanding the use of the U.S. Bank client portal, PIVOT, to automate the monitoring of liquidity in real time. As a second phase, SANDAG should explore whether the process of uploading the trustee and investment information into TTrak (*TransNet* subsidiary ledger) could be automated.

Finance agreed with our recommendations and has already implemented actions to address some of the noted issues. Finance plans to take additional actions to further strengthen its business practices.

Background

Government agencies like SANDAG need to conduct ongoing cash flow analyses to estimate available funds and expected inflows and outflows to ensure sufficient liquidity. Cash analyses are intended to measure and assess an agency's ability to meet current and future obligations. Furthermore, cash flow analyses can also help recognize issues that might have negative impacts on cash position.

SANDAG Board Policy No. 003, Investment Policy, requires that the investment portfolio of SANDAG remain sufficiently liquid to enable SANDAG to meet its cash flow requirements. In addition, California Government Code Section 53646(b)(3) requires that "the quarterly report shall include a statement denoting the ability of the local agency to meet its pool's expenditure requirements for the next six months or provide an explanation as to why sufficient money shall, or may, not be available". Currently, staff prepares a report on a quarterly basis that is provided to the Board of Directors, and that report lists all the cash and investments, along with maturity dates. The report also contains the required liquidity certification. This quarterly report is the only time a complete view of liquidity is available.

SANDAG has over \$1 billion in cash and investments as of June 30, 2018. About half of the total portfolio of cash and investments can be considered either liquid,

or the nature of the funds is such that they can be invested with relative certainty as to the timing of their use, i.e., for bond principal and interest payments. The other half of the portfolio of cash and investments is invested in various securities with about 85 percent (approximately \$430 million) of these funds set aside for funding ongoing projects or day to day cash flow requirements.

SANDAG's cash flow analysis has multiple parts that are not always synced in a traditional manner. Monthly, SANDAG Finance staff prepares a forecast of capital project cash outflows using project budget and expenditure information, and input from project managers. However, SANDAG does not determine the inflows and available funds on a monthly basis that should be part of a sound cash flow analysis.

In the Spring of 2018, SANDAG received an invoice for \$42 million for the Mid-Coast Corridor Transit project that was unexpected. This turned into a crisis since staff did not have the tools necessary to readily determine a liquidity position which would in turn inform the most advantageous and least costly method of creating liquidity. The Finance Director voiced his concern that SANDAG does not have the ability to provide a global view of our liquidity position on a real time basis. He indicated the current process is too labor intensive and would like to explore

other options for providing the ability to assess a liquidity position in a timelier manner.

Objectives, Scope and Methodology

The purpose of the audit was to determine if the process for assessing cash liquidity is adequate. In addition, we researched best practices and inquired of peer agencies to identify any guidance or systems that would be beneficial for SANDAG to consider as part of its liquidity assessment process.

We completed this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our conclusions and findings based on our audit objectives. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and the records selected. We believe that the evidence obtained provides a reasonable basis for our conclusions.

The scope of the audit was limited to selected performance activities solely for addressing the specific audit objectives. The audit included meetings with staff, evaluation of internal policies and procedures, researching best practices, and inquiries of peer agencies. The audit period was from July 1, 2017 through June 30, 2018.

Evaluation of Internal Controls

SANDAG is responsible for establishing and maintaining effective internal controls. In planning and performing the audit, we obtained an understanding of the internal control structure in relation to the context of the audit objectives. Our consideration of internal controls was not designed to identify all deficiencies in internal controls, but to report internal controls that are significant within the context of the audit objectives based upon the work performed.

Audit Results

Our audit revealed that while monitoring liquidity on a quarterly basis has historically been acceptable, SANDAG more recently is experiencing significant and variable cash outflows thereby necessitating the need to monitor liquidity on a more frequent basis. Failure to do so could result in the inability to make timely payments or could result in the liquidation of investments prior to maturity, potentially incurring losses. We also noted that while there have been increased efforts to forecast cash outflows, improvements could be made. All outflows should be considered, matched against liquidity, and a comparison of actual results with projections performed periodically to more accurately prepare future forecast analyses.

SANDAG should explore technology solutions to replace its manual processes

It is evident from our audit that SANDAG has not taken advantage of the recent advancements in treasury management software solutions that could automate manual processes thereby resulting in increased productivity and reduced costs. In addition, recent technology enhancements have consolidated cash management, forecasting, risk analysis, and investment account management into one system.

Best practices indicate that automation of cash flow forecasting (both inflows and outflows) is key and that the goal should be to have all the data in one system and one database. SANDAG does not currently use an automated system to monitor liquidity on a real-time basis or to forecast cash flows.

We noted that third party firms are providing treasury management software solutions to government agencies that modernize manually driven forecasting processes. The Kansas Department of Transportation (KDOT) is an example of an agency taking advantage of technology. In 2012, KDOT pursued an alternative forecasting process to address one of its goals of reducing risk through transparent management of cash forecasting models. KDOT indicated that its new software solution has proven to be an effective tool for the agency to efficiently manage cash and predict future cash availability.

SANDAG uses two investment managers, Public Financial Management, Inc. and

Insight Investment, with U.S. Bank acting as Custodian for both investment managers. As part of our audit, we explored U.S. Bank's online client portal, PIVOT. SANDAG currently uses PIVOT on a limited basis, but it appears that much more could be done with PIVOT. PIVOT can produce real time reports that include all holdings, maturities, credit ratings, etc. and can segregate the investments by the nature of the funds (i.e., bond principal and interest reserves, project funds, general operating funds, etc.).

Monthly reconciliations could be enhanced.

Our audit also revealed that the monthly reconciliation process of the trustee and investment statements, and the entering of the data into SANDAG systems is a time consuming and somewhat duplicated effort. Currently, all the investment account activity is manually entered into TTrak which is essentially the subsidiary ledger to account for all *TransNet* activity. TTrak is a separate stand-alone system developed specifically for SANDAG. TTrak produces a journal entry that is then manually entered into OneSolution, the financial accounting system. At the very least, SANDAG should automate the data transfer process between TTrak and OneSolution. As a second phase, SANDAG should explore whether the process of uploading the trustee and investment information into TTrak could be automated, perhaps through a treasury management software solution.

Recommendations

We recommend SANDAG consider procuring a treasury management software solution that will address its current cash management needs as well as being scalable for future enhancements to include the full suite of treasury functionality in one system. As an interim step, SANDAG should consider expanding the use of the U.S. Bank client portal, PIVOT, to automate the monitoring of liquidity in real time. As a second phase, SANDAG should explore whether the process of uploading the trustee and investment information into TTrak could be automated.

Finance agreed with our recommendations and has already implemented actions to address some of the noted issues. Finance plans to take additional actions to further strengthen its business practices. See Attachment I for management's response

This report is intended for the information of SANDAG; however, this report is a matter of public record and its distribution is not limited.

San Diego
ASSOCIATION OF GOVERNMENTS

MEMO

March 18, 2019

To: Steve Castillo, Principal Management Internal Auditor
From: André Douzdjian
Subject: Cash Liquidity – Draft Audit Report

I have read your draft audit report dated March 1, 2019 of SANDAG's process for assessing cash liquidity. The audit was undertaken to assess the adequacy of the current process in place. I agree with your overall assessment that based on significant and variable cash flows that the agency has experienced recently, that the process needs to be updated and improved.

The Finance Department has not taken advantage of software solutions that are available in the marketplace today. There are a number of Treasury Management solutions in the market today that could assist in accuracy/improvements in timing of the reporting, increased productivity and lowering costs. Thus, changes should be made to the current process and advantage of technological enhancements should be accessed to automate the current process.

Please see our responses to your specific recommendations:

1. *Procuring a software solution that will allow for cash flow forecasting, both inflows and outflows, with all the data in one system. As an interim step, SANDAG should consider expanding the use of the U.S. Bank client portal, PIVOT, to automate the monitoring of liquidity in real time.*

The Finance Department in conjunction with the new IT governance, has a request to the IT Committee to issue an RFP for a new Treasury Management Solution/ Financial Reporting Platform (platform).

1. This platform should be able to consolidate and report out all the various investments that are held internally and those that are managed externally by outside consultants.

2. This platform should be able to automate/ 'journalize' interest earnings, and all related fees and expenses by account.
3. The platform should have the ability for the purchases of treasury/government money market funds that are government code qualified.
4. This platform should have the ability to track inflows and outflows of cash.

We expect an RFP to be issued early in FY 2020, with a new platform being in place by the end of the FY 2020.

2. *A periodic comparison of actual results and projections is done to inform future forecasts.*

We concur that at least a quarterly review is performed to see what actual results are vs. projections. In addition, the Finance Department will work closely with the Programming Department to ensure that their cash flow needs are updated and reported to the Finance Department on a more regular basis.

3. *Consider expanding the use of the Pivot system in the interim.*

We agree and have already taken the steps to work closer with US Bank in assisting us with getting the reports we need on a quarterly basis for our Board reports. This should help in timelier reporting (month after the close of a period, rather than having to wait two months after the close of a period).

Thank you for reviewing and suggesting improvements for this very important Finance Department function.

San Diego
ASSOCIATION OF GOVERNMENTS
MEMO

February 7, 2019

TO: Kim Kawada, Chief Deputy Executive Director

FROM: Steve Castillo, Principal Management Internal Auditor

SUBJECT: Second Follow-up - Small Business Program and Labor Compliance Performance Audit

We completed our second follow-up of actions taken by MMPI and Administration to address the recommendations contained in our Small Business Program and Labor Compliance Performance Audit dated May 26, 2017. For the first follow-up, we reviewed actions taken through May 21, 2018. For this follow-up, we relied on inquiries with staff, a written response from Administration, and verified selected documentation supporting the actions taken. All actions noted in the attachment were based on responses received as of January 24, 2019. The attachment to this memorandum includes the findings, recommendations, proposed actions, and status of actions taken.

Overall, we concluded SANDAG has made progress with implementing its corrective actions but has not fully addressed the issues noted in the audit report. The following will provide a summary level status of each issue noted from the audit report.

SANDAG's practice of not establishing DBE goals for contract change order work is contrary to the USDOT's interpretation on this matter.

MMPI implemented a new process to consider the potential for DBE opportunities for contract change orders (CCOs). The new process was incorporated into the SANDAG Construction Manual, and training was provided by the Small Business Development (SBD) staff. During our testing as part of the first follow-up, we concluded construction staff were not consistently following the new CCO process. Furthermore, we believe the new CCO process has been ineffective in providing contracting opportunities for DBEs. We suggested MMPI consider the Association of General Contractors (AGC) recommended guidance on this matter, as well as guidance by the SANDAG Office of General Counsel (OGC), when revising its Construction Manual.

During our second follow-up, we noted that MMPI has taken steps to revise its Construction Manual to incorporate AGC's recommended guidance, but still has been unable to reach consensus with SBD as to the specific language that should be included in the Construction Manual. Best Best & Krieger, Attorneys at Law, were retained by the OGC to provide a legal analysis related to questions regarding the DBE program and change order work. After receiving the analysis, SANDAG's General Counsel has directed OGC staff to develop a decision tree on when and how to implement DBE goals on CCOs and will submit the decision tree to the FTA for approval.

We suggest MMPI wait until SANDAG gets a response from FTA before it revises the Construction Manual. If appropriate, the revisions to the Construction Manual should include the decision tree and additional specific instruction on how to address DBE requirements for change order work.

Final authority between MMPI and Small Business Development as it relates to contracting DBE requirements needs to be formally established.

MMPI and SBD teams have agreed that the Executive Director has ultimate authority for the DBE program and that he has delegated this authority to the DBE Liaison Officer (DBELO) for implementing all aspects of the program. For purposes of implementing the DBE program it has been agreed that corrective actions to the contractor, consultant or supplier would be made by the project manager or construction manager, in consultation with the SBD team.

Based on our first follow-up, the corrective actions taken did not address the issues noted in the audit report. We documented many instances that continued to cause ineffective handling of DBE requirements between MMPI and SBD. As we pointed out in the audit report, The DBELO has delegated her duties for implementing the DBE program to the Manager of SBD. In our opinion, the project managers do not always follow the course of action recommended by the Manager of SBD (acting on behalf of the DBELO). If project managers do not follow recommended DBE actions from SBD, then SANDAG does not have assurance of compliance with all the federally required provisions of 49 CFR Part 26.

Our second follow-up results showed MMPI and SBD are still experiencing difficulties coming to a consensus on DBE contracting practices. In its response, Administration stated there continues to be instances where the lack of agreement regarding "who" has ultimate responsibility over the DBE program has created frustration, lack of clarity, and inefficiencies. These continued disagreements between MMPI and SBD has also caused frustration with the Mid-Coast construction manager. These disagreements have escalated to a point where the DBELO has requested SANDAG's OGC to provide an opinion as to who has ultimate authority over certain DBE issues.

It's apparent MMPI and Administration actions have been unsuccessful in managing the DBE program in the collaborative manner that SANDAG stakeholders expect. We do not understand why it has taken so long to implement final authority between the two teams. If MMPI and Administration staff are unable to effectively resolve their differences, then we believe executive management should act on this matter.

Small Business Development has implemented many positive discretionary activities, but it's difficult to quantify benefits from some of them

SBD has made progress with its small business program. They provided a draft Small Business Program document that sets the parameters of a formalized Small Business program at SANDAG. The Small Business Program document lays out the objectives and strategies being considered for increasing small business participation for non-federally funded contracts. In addition, SANDAG plans to hold a "DBE+SB Summit" in April 2019, to obtain information and ideas from other public agencies from California and other states. SBD plans to use the information from the Summit to enhance its planned Small Business Program.

Regarding performance measures, SBD has not developed performance measures that correlate directly to specific outreach events and activities. SBD is trying to create performance measures, but it has been challenging. We understand the difficulty with developing performance measures specific to outreach activities. SBD believes an accurate measurement of the success of outreach activities may be reflected in whether SANDAG is meeting the race neutral goal of 2.5 percent. The manager of SBD stated SANDAG has significantly increased race neutral utilization since the audit was issued and has reported actual attainment of 8.1 percent in federal fiscal year (FFY) 2018.

SANDAG has an established Labor Compliance Program but can benefit from improvements

We concluded progress has been made with labor compliance improvements. First, the Construction Manual and Labor Compliance Contractor Violation Escalation Procedures were finalized. Second, the labor compliance program's role and responsibility have been properly documented between the two departments. Third, staff have

reduced the number of outstanding late certified payroll registers (CPRs) shown in LCP Tracker. During our second follow-up, we noted that two projects and many CM task orders identified in the first follow-up still showed late CPRs. Based on correspondences from MMPI staff, there was a misunderstanding who had responsibility to address these late CPRs. Nevertheless, MMPI has engaged GAFCON to assist MMPI with addressing these late CPRs. MMPI's plan is to resolve these issues by end of February 2019.

All functional responsibility for the Labor Compliance Program was transitioned to MMPI on June 25, 2018. Administration provided a Transition Plan that explained the transition procedures, manuals to be used, and projects that required labor compliance activities.

We do not plan to perform additional follow up procedures regarding this audit unless you want us to. Please contact me if you want to discuss this audit and the follow-ups further.

Attachment

cc: Jim Linthicum, Director of Mobility Management and Project Implementation
Laura Cote, Director of Administration

**Small Business Program and Labor Compliance – Performance Audit
Second Follow-up - Status of Corrective Action**

<p>SANDAG’s practice of not establishing DBE goals for contract change order work is contrary to the USDOT’s interpretation on this matter.</p>
<p>RECOMMENDATION: On the advice of Legal, SANDAG should have a decision-making process that it employs whenever an amendment or change order affects the work to be performed on contracts with DBE goals.</p>
<p>RESPONSE: Mobility Management and Project Implementation (MMPI) and Small Business Development (SBD) teams have developed a new construction change order process to address the DBE program’s requirement to review DBE goals when changes to the contract occur. The construction management teams have been informed and to ensure compliance, change order memorandum forms have been changed to affirmatively address the need to review DBE goals for each change order when certain criteria are met. SBD conducted training on this new process in early January 2017 with MMPI staff. Also, MMPI updated the “Construction Manual” with these new procedures and distributed these changes to construction management field staff on March 16, 2017.</p> <p>After the release of the Construction Manual, the SANDAG Office of General Counsel (OGC) had some concerns that the Construction Manual omitted relevant requirements that should have been included. Administration and MMPI will work with appropriate staff to determine whether future revisions to the Construction Manual are necessary to address OGC’s concerns.</p> <p>It is also agreed that the SANDAG Auditor will review this program within 6 months to determine if staff are following this new process consistently.</p> <p><u>Status of Proposed Corrective Action</u></p> <p>FIRST FOLLOW-UP: MMPI implemented a new process to consider the potential for DBE opportunities for contract change orders (CCOs). The new process was incorporated into the SANDAG Construction Manual, and training was provided by the SBD staff. The new process included the following:</p> <ul style="list-style-type: none">• Decision making process that if any of the following questions are answered in the affirmative, the SANDAG Construction Manager and the SBD should assess the appropriateness of establishing DBE goals:<ul style="list-style-type: none">○ Will the type of work for the proposed change trigger the addition or deletion of a NAICS code from what was initially considered in the development of the DBE goal?○ If no new NAICS codes are triggered, is the type of work for the proposed change significant? Does it create potential opportunities for DBE subcontractors?• Three scenarios to assist construction staff with determining when a goal and/or commitment may be appropriate; and• On contracts that are federally funded with DBE requirements, explain why the CCO did not merit the establishment of a DBE goal. <p>Based on our testing of sampled CCOs, we concluded construction staff are not consistently following the new CCO process. Furthermore, we believe the new CCO process has been ineffective in providing contracting opportunities for DBEs. SBD indicated they have not seen any DBE goals established for CCO work since the new process became effective.</p> <p>We suggested MMPI consider the Association of General Contractors (AGC) recommended guidance on this matter, as well as guidance by the OGC, when revising its Construction Manual.</p>

**Small Business Program and Labor Compliance – Performance Audit
Second Follow-up - Status of Corrective Action**

SECOND FOLLOW-UP: We noted that MMPI has taken steps to revise its Construction Manual to incorporate AGC’s recommended guidance, but still has been unable to reach consensus with SBD as to the specific language that should be included in the Construction Manual. Best Best & Krieger, Attorneys at Law, were retained by the OGC to provide a legal analysis related to questions regarding the DBE program and change order work. The analysis addressed specific questions related to DBE goals for construction change order work, California subcontracting laws, and whether changes to SANDAG’s contracting documents are needed to clarify the implementation of SANDAG’s DBE program on change order work. After receiving this analysis, SANDAG’s General Counsel has directed OGC staff to develop a decision tree on when and how to implement DBE goals on CCOs and will submit the decision tree to the FTA for approval.

We recommend MMPI wait until SANDAG gets a response from FTA before it revises the Construction Manual. If appropriate, the revisions to the Construction Manual should include the decision tree and additional specific instruction on how to address DBE requirements for change order work.

Final authority between MMPI and Small Business Development as it relates to contracting DBE requirements needs to be formally established.

RECOMMENDATION: SANDAG management needs to determine where they want the final authority over DBE issues to reside. Once the decision has been made, it needs to be effectively communicated to all responsible parties.

RESPONSE: The MMPI and SBD teams have agreed that the Executive Director has ultimate authority for the DBE program and that he has delegated this authority to the DBE Liaison Officer (DBELO) for implementing all aspects of the program. This is also where the DBE subject matter expertise resides. For purposes of implementing the DBE program it has been agreed that corrective actions to the contractor, consultant or supplier would be made by the project manager or construction manager, in consultation with the SBD team. In situations where there is program direction to groups of contractors, consultants, or supplier or where a particular vendor needs direction, it is appropriate for the SBD team to communicate directly. This in no way is meant to discourage daily cooperative dialogue and memorialization of common understandings between the SBD team and the SANDAG vendors.

Status of Proposed Corrective Action

FIRST FOLLOW-UP: Based on our follow-up in this area, the corrective actions taken did not address the issues noted in the audit report. There still are differences of opinion that continue to cause ineffective handling of DBE requirements. As we pointed out in the audit report, The DBELO has delegated her duties for implementing the DBE program to the Manager of SBD. In our opinion, the project managers do not always follow the course of action recommended by the Manager of SBD (acting on behalf of the DBELO). If project managers do not follow recommended DBE actions from SBD, then SANDAG does not have assurance of compliance with all the federally required provisions of 49 CFR Part 26. This could subject SANDAG to disciplinary actions. SANDAG should revisit its corrective actions to ensure the established process confirms program managers are implementing the DBELO’s recommended actions regarding DBE requirements.

SECOND FOLLOW-UP: MMPI and SBD are still experiencing difficulties coming to a consensus on DBE contracting practices. In its response, Administration stated there continues to be instances where the lack of agreement regarding “who” has ultimate responsibility over the DBE program has created frustration, lack of clarity, and inefficiencies. These continued disagreements between MMPI and SBD has also caused frustration with the Mid-Coast construction manager. SBD staff

Small Business Program and Labor Compliance – Performance Audit Second Follow-up - Status of Corrective Action

informed us that many disagreements between MMPI project managers have been elevated to the DBELO for resolution. The DBELO informed us that she requested SANDAG's OGC to provide an opinion as to who has ultimate authority over certain DBE issues.

Small Business Development has implemented many positive discretionary activities, but it's difficult to quantify benefits from some of them

RECOMMENDATION: SANDAG should evaluate whether alternative strategies to foster small business participation can be implemented to increase race-neutral utilization. Specific performance measures should be considered so SANDAG can measure how effective its activities are in meeting the 2.5 percent race-neutral goal.

RESPONSE: SBD believes that outreach events affect both race-neutral and race-conscious DBE participation as SANDAG is able to provide information about its USDOT funded upcoming procurements at these events. The outreach efforts of SANDAG's DBE Program and encouragement for prime contractors to utilize DBE firms may help increase the use of DBEs on contracts where DBE goals are set. One area that may be evident of the success of DBE outreach would be the A&E Bench program that has been confirmed in the audit report to be a valuable program in increasing DBE participation. We believe that outreach to small businesses to apply and join the SANDAG A&E Bench was an important factor in building the list to 370 firms.

SBD agrees that quantifying the value of these outreach activities is difficult and believes that redirecting resources to different activities such as developing a small business program utilizing both small business goals and restrictive competition measures (i.e. set-asides for prime contracts under a stated amount e.g. \$1 million) could increase the race-neutral participation of small businesses including DBE firms. The establishment of an actual small business program with goals will need to be presented and reviewed/approved by SANDAG Management and the Board of Directors. SBD will work with Executive Management to determine if this is the direction that the agency wants to pursue.

Status of Proposed Corrective Action

FIRST FOLLOW-UP: The SBD team indicated they have developed several small business program strategies that can increase small business success in SANDAG contracting opportunities. However, the SBD team has delayed the review and approval process of these strategies until a new Executive Director is selected. Specific performance measures have not been developed to determine how effective activities are in meeting the 2.5 percent race-neutral goal.

SECOND FOLLOW-UP: It is evident SBD has made progress with its small business program. They provided a draft Small Business Program document that sets the parameters of a formalized Small Business program at SANDAG. The Small Business Program document lays out the objectives and strategies being considered for increasing small business participation for non-federally funded contracts. In addition, SANDAG plans to hold a "DBE+SB Summit" in April 2019, to obtain information and ideas from other public agencies from California and other states. SBD plans to use the information from the Summit to enhance its planned Small Business Program.

Small Business Program and Labor Compliance – Performance Audit Second Follow-up - Status of Corrective Action

In regard to performance measures, SBD has not developed performance measures that correlate directly to specific outreach events and activities. SBD is trying to create performance measures, but it has been challenging. We understand the difficulty with developing performance measures specific to outreach activities. SBD believes an accurate measurement of the success of outreach activities may be reflected in whether or not SANDAG is meeting the race neutral goal of 2.5 percent. The manager of SBD stated SANDAG has significantly increased race neutral utilization since the audit was issued and has reported actual attainment of 8.1 percent in federal fiscal year (FFY) 2018.

SANDAG has an established Labor Compliance Program but can benefit from improvements

RECOMMENDATION:

- SANDAG should enforce all labor compliance activities as required by the applicable labor code. Enforcement action should be taken when certified payroll registers (CPRs) are submitted late.
- MMPI should formally issue its Construction Manual to all staff responsible for overseeing public works projects.
- SANDAG should clarify labor compliance contracting administration roles and responsibilities between MMPI and Administration.

RESPONSE: At this time the MMPI and SBD teams agree that all labor compliance activities should be enforced. The construction contracts provide for deductions to be taken for late submissions of CPRs. The construction management teams too often have deferred these deductions instead giving the contractors additional time to submit the required information. The construction managers have now been instructed to take the deductions on each month's progress pay estimate when these documents are tardy. Note, these are deductions to progress pay and not penalties. The deductions are returned when the required documents are submitted.

In partnership with MMPI, SBD rolled out the "The Labor Compliance Contractor Violation Escalation Procedures" for a consistent violation process. GAFCON has been tasked with spot-reviewing the labor compliance program for compliance.

An updated Construction Manual was issued to resident engineers on March 17, 2017. The Manual is a living document and will be updated and distributed regularly. Formal notification will also be distributed with these updates that will highlight the substantive changes.

At this time the MMPI and SBD teams have agreed that the labor compliance program monitoring functions are the responsibility of the SBD team and each SANDAG department (i.e. MMPI) is responsible for the day to day administration including being the main point of contact with all contractors for this program. SBD are the subject matter experts and monitor the program. MMPI managers implement and administer the program on individual projects.

Status of Proposed Corrective Action

FIRST FOLLOW-UP:

- The Construction Manual and Labor Compliance Contractor Violation Escalation Procedures were finalized.
- Only a few construction projects included late certified payroll registers in LCP Tracker. In reviewing the detail of these projects, it's apparent that the information in LCP tracker was not updated to reflect the conditions for certified payroll submittals. Construction staff provided additional documentation to

Small Business Program and Labor Compliance – Performance Audit Second Follow-up - Status of Corrective Action

address the projects with late certified payrolls. The staff also indicated that the contractors will update LCP tracker to reflect the proper working days and other issues.

We also found that LCP Tracker information is inaccurate for CM task orders. Most of the inaccurate information occurs when task order subconsultant information is transferred from the CIS system to LCP Tracker.


- The labor compliance program's roles and responsibilities have been properly documented between the two departments.

SECOND FOLLOW-UP: All functional responsibility for the Labor Compliance Program was transitioned to MMPI on June 25, 2018. Administration provided a Transition Plan that explained the transition procedures, manuals to be used, and projects that required labor compliance activities. During this follow-up, we noted that two projects and many CM task orders identified in the previous follow-up still showed late CPRs. Based on correspondences from MMPI staff, there was a misunderstanding on who had responsibility to address these late CPRs. Nevertheless, MMPI has engaged GAFCON to assist MMPI with addressing these late CPRs. MMPI's plan is to resolve these issues by end of February 2019.

MEMO

March 11, 2019

TO: Kim Kawada, Chief Deputy Executive Director

FROM:  Steve Castillo, Principal Management Internal Auditor

SUBJECT: 180-Day Follow-up Toll Violation – Performance Audit

We completed a 180-Day follow-up of actions taken by SBX to address the recommendations contained in our Toll Violations Audit dated August 17, 2018. The attachment to this memorandum includes the audit issues, recommendations, proposed actions, and status of actions taken. For this follow-up, we relied on written responses prepared by SBX and verified selected documentation as we deemed necessary. All actions noted in the attachment were based on responses received by March 5, 2019.

Overall, we concluded SBX has made progress with implementing many of its corrective actions and should be able to implement the remaining actions by June 30, 2019. Substantial progress with the comprehensive review of selected business and operational processes has been made. Working with the California Transportation Operators Committee (CTOC) agencies, the analysis of SBX's operational practices and potential process improvements are underway and is expected to be completed by June 30, 2019. Best practices from the peer agencies will inform the development of any business process improvements. SBX also reported that SANDAG has entered into a contract with a 3rd party vendor to provide manual image review services. The pricing received from the vendor is lower than the cost incurred to operate the service in-house resulting in cost-savings.

Regarding its participation in the Franchise Tax Board (FTB) Tax Intercept Program, SBX received guidance from the Office of General Counsel. SBX made immediate improvements to guide its participation in the 2019 FTB program. Additional corrective actions may be identified once the analysis work that is underway is complete; and any recommendations resulting from the analysis phase will be presented to executive management to determine next steps.

SBX also reported that SANDAG has resumed pursuit of owner registration information for out-of-state vehicles as of November 29, 2018. The new third-party vendor is providing look up services for out-of-state registration information at a cost of \$1.04 per successful registration "hit" as opposed to the previous vendor agreement that contained pricing as high as \$7.00 for each "hit." The cost-benefit analysis concluded that the business process should be updated so that out-of-state vehicles with single violations are included in the transmittal to the look up provider. This update occurred on November 29, 2018. SBX also updated its applicable standard operating procedures on January 29, 2019.

We plan to perform our second follow-up during September 2019, to verify whether the remaining corrective actions have been completed.

Please contact me if you want to discuss this matter further.

Attachment

cc: Ray Traynor, Director of Operations

**SBX Toll Violation – Performance Audit
180-Day Follow-up
Status of Corrective Actions**

SBX did not consistently follow some of its procedures and experienced revenue leakage

RECOMMENDATION: Consider performing a comprehensive review of its overall program to determine whether certain business rules and or operational activities need to be modified to reduce toll leakage.

PROPOSED CORRECTIVE ACTIONS:

1. Contract with a qualified third-party vendor to assist SBX with manual image review activities – complete by September 30, 2018.

Work on this corrective action has already begun and a contract is in development with a vendor that will assist in the manual image review process. The pricing for the vendor services should result in a cost-savings; as well as reduced staff effort resulting from no longer needing to conduct ongoing staff recruitment. The third-party image review service is expected to begin in Q2 FY 2019.

2. Conduct a comprehensive review of the toll violation process and develop an improvement plan that aligns with ongoing efforts of the California Toll Operators Committee (CTOC), and policy-maker guidance – complete by June 30, 2019.
 - a) Document current practices; identify revenue sources and associated costs to collect
 - b) Conduct an industry scan to identify trends and best practices
 - c) Identify opportunities to implement strategies to improve the processes and develop a timeline for implementation
 - d) Obtain guidance from policy-makers regarding the recommended improvements and the approach used to process the collection of tolls resulting from violations
3. Implement the improvement plan – complete as described in the implementation timeline.

Work on this corrective action has already begun and a consultant is being procured to assist in the completion of the activities described above; the consultant support is expected to begin in Q1 FY 2019.

STATUS OF CORRECTIVE ACTIONS

Operations has been successful with implementing its proposed corrective actions as follows:

1. SANDAG entered into a contract with a 3rd party to provide manual image review services. The pricing received from the vendor is lower than the cost incurred to operate the service in-house resulting in a cost-savings.

2. Current operational practices were documented in draft form and presented to CTOC for their feedback at the CTOC Executive Committee meeting on October 2, 2018. The analysis of the current practices and identification of potential process improvements is underway, including an analysis of the costs associated with the various collection methods. This work is on schedule for completion by June 30, 2019.

A consultant conducted interviews with the CTOC agencies, and relevant peer toll operators including Washington State Department of Transportation, and E-470 (Colorado); as well as three local agencies that operate parking enforcement programs. Information regarding peer agencies' practices was collected by the consultant and delivered in draft form on December 18, 2018. Best practices from the peer agencies will inform the development of any business process improvements. The identification of process improvements is scheduled to occur by June 30, 2019. Discussion with the Transportation Committee is planned to occur by June 30, 2019.

3. The Notice to Proceed for consultant support was issued on September 14, 2018. Two of the five commitments are complete; two are ongoing; and one is planned to occur – all within the timeline committed. Additional implementation steps may result from the ongoing activities and any steps identified will be scheduled and reported as they occur.

SBX Toll Violation – Performance Audit
180-Day Follow-up
Status of Corrective Actions

SBX also missed an opportunity to intercept tax refunds for delinquent violators because of the collection delays it experienced in 2016

RECOMMENDATION: Review its Franchise Tax Board (FTB) Tax Intercept participation to determine whether current and past business practices comply with applicable Government Codes related to intercepting taxes with the three-year period.

PROPOSED CORRECTIVE ACTIONS:

1. Conduct a comprehensive review of the FTB Tax Intercept program to identify compliance requirements – complete by October 31, 2018.
Working with the SANDAG Office of General Counsel (OGC), identify and document current compliance requirements of the FTB's Tax Intercept program
2. Conduct a review of past and current practices and identify any compliance issues – complete by October 31, 2018.
 - a) Using the results from the research conducted by the OGC, identify any applicable collection activities and implement corrective actions
 - b) Update business process; standard operating procedures and business rules in support of improvements recommended for immediate implementation prior to the upcoming FTB filing period.

STATUS OF CORRECTIVE ACTIONS

Operations has been successful with implementing its proposed corrective actions as follows:

1. The OGC reviewed the authorizing legislation that is applicable to SANDAG's operation of SBX; based upon the guidance received, section 12419.10 of the S&HC applies to SBX and guides its participation in the FTB program.
2. SBX made immediate improvements to guide its participation in the 2019 FTB program. As a result, SBX submitted offset requests to the FTB for unpaid fines and penalties dating back to 2015. Additional corrective actions may be identified once the analysis work that is underway is complete; and any recommendations resulting from the analysis phase will be presented to executive management to determine next steps.

The updating of business processes; Standard Operating Procedures (SOPs) and any changes needed to business rules is dependent upon the ongoing analysis that is underway by SANDAG and its Consultant and any guidance that is obtained from the Transportation Committee - this activity will be completed by June 30, 2019.

SBX Toll Violation – Performance Audit
180-Day Follow-up
Status of Corrective Actions

A significant number of out-of-state vehicles were not pursued as violators

RECOMMENDATION: Work with Contracts and Procurement to immediately issue a Request for Proposal to contract with a third-party vendor to obtain out-of-state registration information

PROPOSED CORRECTIVE ACTIONS:

Establish a contract with a qualified third-party vendor to obtain out-of-state vehicle registration information and resume pursuit of the collection of tolls from identified vehicle owners – complete by September 30, 2018.

- a) Resume pursuit of out-of-state violators according to the current business practice
- b) Conduct a cost-benefit analysis to determine the cost-effectiveness of pursuing toll collection from out-of-state violators with a single violation; and identify business process changes needed for implementation
- c) Update business processes; SOPs; work instructions and business rules to support improvements recommended for implementation

STATUS OF CORRECTIVE ACTIONS

Operations has been successful with implementing its proposed corrective actions as follows:


As of November 29, 2018, the new third-party vendor is providing look up services for out-of-state registration information at a cost of \$1.04 per successful registration "hit" as opposed to the previous vendor agreement that contained pricing as high as \$7.00 for each "hit." The cost-benefit analysis concluded that the business process should be updated so that out-of-state vehicles with single violations are included in the transmittal to the look up provider. This update occurred on November 29, 2018.

SOP 7.04.15, Out-of-State License Plate Trip Processing was updated and published on January 29, 2019. The work instructions that guide the step-by-step process used by Customer Service staff to generate the out-of-state plate list was also updated in Q2 FY 2019.

MEMO

February 19, 2019

TO: Kim Kawada, Chief Deputy Executive Director

FROM:  Steve Castillo, Principal Management Internal Auditor

SUBJECT: Follow-up - Public Records Request Performance Audit

We completed the first follow-up of actions taken by the Office of General Counsel (OGC) and Finance to address opportunities for improvements contained in our Public Records Request Performance Audit dated June 1, 2018. For this follow-up, we obtained written responses and documentation from the OGC and Finance to support actions taken. All actions noted are based on responses received as of February 6, 2019.

We concluded the OGC and Finance have implemented the proposed actions included in the response to the draft report. The OGC finalized the SANDAG updated Public Records Request Guidelines and posted them on the SANDAG website. The OGC has also made significant progress with (1) procuring a management software solution that will combine the requirements for California Public Records Act recordkeeping and general legal matter management and (2) procuring an E-Discovery software solution that will combine collection, review and delivery of public records. The OGC's goal is to expedite these procurements to have both software solutions in place by the end of FY 2019. Finance has completed actions to capture and charge appropriate projects for staff time related to public records requests.

Since all the proposed actions have been completed, we do not plan to perform a second follow-up to this audit. We want to thank all staff for their courtesy and cooperation during this follow-up. If you have any questions, please contact me.

cc: John Kirk, General Counsel
Andre Douzdjian, Director of Finance

April 12, 2019

Operations Department Overview

Introduction

The SANDAG Operations Department is a service delivery organization that adds value to the region through programs and services that improve mobility, enhance the capabilities of local agencies, and provide business capabilities through information technology services.

Discussion

The Operations Department is composed of 108 staff who work in four primary program areas. An overview of each of the four programs follows.

Smart Mobility Services

Transportation Demand Management

The Transportation Demand Management (TDM) program encourages use of transportation alternatives to help reduce traffic congestion and greenhouse gas emissions (GHG) in the region. The TDM program is organized into three core areas:

- **Commuter Services** – includes incentives and programs that make it easier for commuters to choose a mode other than driving alone in a personal vehicle. iCommute assists commuters by providing information about carpool services, a subsidized vanpool program, transit solutions, regional support for biking, the Guaranteed Ride Home program, information about teleworking, and bike and pedestrian safety program support for schools.
- **Outreach and Education** – includes activities that promote regional awareness of transportation alternatives such as campaigns for Bike to Work Day (May) and National Rideshare Week (October). The iCommute Employer Services Program also provides assistance to local businesses, helping them develop and implement customized employee commuter benefit programs that lower costs, increase productivity, and help the environment.
- **Mobility Planning and Pilot Projects** – includes strategies for expanding the use of shared mobility and leveraging technology and new mobility services to influence travel behavior. Recent projects include the completion of the Regional Mobility Hub Strategy and the development of a TDM Program for the City of Carlsbad.

Transportation System Management

The Transportation System Management (TSM) program supports local agencies through the development of programs and services that improve mobility and reduce GHG emissions through better integration and coordination of multimodal transportation systems operations. TSM helps to reduce traffic congestion, improve the flow of people and goods, and improves the operations of public transit services. The program is organized in two areas:

Action: **Information**

Staff will present an overview of the SANDAG Operations Department.

Highlights:

The Operations Department is composed of 108 staff who work in four primary program areas, including Smart Mobility Services, Transportation and Information Technology, Motorist Aid Services, and Regional Toll Operations.

- Transportation System Management and Operations – includes coordination with regional partners to develop integrated multimodal management strategies that seeks to optimize operations by managing jurisdictional transportation systems as a single corridor, such as the Integrated Corridor Management System on Interstate 15 (I-15).
- Performance Monitoring – includes regular and ongoing data collection, monitoring and reporting on regional transportation performance to assist the region and system operators with decision-making.

Transportation and Information Technology

The transportation and information technology program develops and implements solutions that integrate transportation system operations and expand the capabilities of the region’s transportation systems, helping them operate more effectively and efficiently, and provides support to SANDAG staff through the delivery of Information Technology (IT) service management. The program is organized in three areas:

- Intelligent Transportation Systems – includes the application of advanced transportation technologies such as active traffic management, connected vehicles, and smart cities solutions that help optimize the region’s transportation infrastructure. Recent work includes the concept of operations for the South Bay *Rapid* Bus on Shoulder Pilot, which includes the use of connected vehicles and advanced driver assist technologies.
- Information Technology – includes the development, maintenance, and support of IT systems and services; network administration, security and compliance; and help desk services and training to address the changing needs of SANDAG.
- Program Management Office – includes the support for governance activities, enterprise architecture, and project management to guide the development and deployment of technology solutions.

Motorist Aid Services

The Motorist Aid Services Program enhances mobility by providing assistance and regional transportation information to motorists, thereby reducing congestion and improving safety on the region’s urban and rural highways. The Motorist Aid Services provided in the region include:

- Freeway Service Patrol – a fleet of roving tow trucks that patrol the region’s urban highways during peak commute periods to assist stranded motorists by giving a gallon of gas, changing a flat tire, or towing a stranded vehicle at no charge to a safe, pre-determined location designated by the California Highway Patrol.
- 511 Roadside Assistance – a component of the region’s one-stop travel resource system 511, which enables motorists in need to obtain assistance from police, fire, ambulance, towing, and other service personnel directly from their cell phone. 511 also provides up-to-the minute information on traffic conditions; incidents and driving times; schedule, route, and fare information for public transportation; carpool and vanpool referrals; bicycling information; and more.
- Call Box Program – a network of 379 call boxes located on the region’s rural highways enabling motorists in need to obtain assistance from police, fire, ambulance, towing, and other service personnel.
- Regional Helicopter – as specifically permitted under Assembly Bill 1572 (Eggman, 2014), the Motorist Aid Services Program also contributes funding for the Regional Helicopter Program, operated jointly by the City and the County of San Diego.

Regional Toll Operations

As the regional toll authority, SANDAG enhances mobility and helps to reduce congestion through the delivery of interoperable toll road operations, maintenance and customer services. The program is organized in two areas:

- Interstate 15 Express Lanes - in 1993, SANDAG secured state authority and approval by the Federal Highway Administration to implement congestion pricing on the I-15 Express Lanes. The I-15 *FasTrak*® program improves mobility in the corridor by allowing solo drivers to pay a fee to use the facility, thereby easing congestion on the general purpose lanes. In addition, net revenues available after covering the cost of operating the program may be used for other mobility improvements including subsidizing transit services in the corridor.
- State Route 125 South Bay Expressway - in 2011, SANDAG completed the acquisition of the State Route 125 Development Franchise Agreement. To complete the purchase, SANDAG incurred debt and is required to manage the facility in a manner to support repayment of the bonds, adhere to Caltrans standards for maintenance, make improvements based on traffic levels, and achieve the Board of Director's objectives of increasing usage of the facility and reducing congestion on alternate routes.

Ray Traynor, Director of Operations Department

Key Staff Contact: Ray Traynor, (619) 699-6987, ray.traynor@sandag.org