



THE OFFICE OF THE INDEPENDENT PERFORMANCE AUDITOR

September 24, 2021

Chair Zito,
SANDAG Audit Committee

Dear Chair Zito:

Subject: Testing Results on Corrective Action Plan – Salary and Compensation Performance and Compliance Audit Items due as of June 30, 2021

Background

The SANDAG Office of the Independent Performance Auditor (OIPA) completed a Salaries and Compensation Performance and Compliance Audit (audit) in August 2020. In November 2020, the Board of Directors at the recommendation of the Audit Committee, approved a Corrective Action Plan (CAP) to address audit recommendations relating to the Salaries and Compensation Compliance Audit conducted by the Office of the Independent Performance Auditor. As part of the OIPA's roles and responsibilities, quarterly reviews are performed on all CAP's that resulted in an audit finding.

Objective

The objective of this review on 11 items this quarter is to ensure that the Corrective Action Plan items approved by the Board of Directors have been implemented and are consistently followed and to ensure that the finding identified in the audit has been corrected.

As stated by Management, 10 actions from the CAP were due to be completed in the second quarter of 2021 with an additional one item that was completed early. All eleven including *Action IV.1 – Board approval of a Special Compensation policy* that was postponed has been completed. However, additional testing for one item will be performed in October and again in December regarding supporting documentation on salary increases and lump sum performance bonuses. Two reviews will be performed, the first will be on FY21 salary and lump sum performance bonuses and the next once FY22 salary adjustments have been completed.

The Corrective Action Plan includes actions that management are to undertake in response to the recommendations noted in the audit. The OIPA's responsibility is to review the CAP on a quarterly basis for actions that are due based on time commitments that were provided by management on the CAP that was approved in November 2020.

The review consists of applying the following actions:

1. Vouching that the time commitment was accomplished.
2. Testing the outcomes/ outputs (e.g. policies, procedures, tracking sheets, system controls, or other tangible outputs) exists, are reviewed and to ensure that the matter addresses specific findings and the related causes and effects; and
3. that testing is performed on items to ensure that the actions have been successfully implemented, enforced, are sufficiently documented, and that it has corrected the matter in an

efficient and effective manner.

It is important to note that testing on a quarterly basis is not the only involvement the OIPA has in the implementation of the CAP and board approved action items. The OIPA and Management are working proactively and collaboratively on a continuous basis to ensure the success of the CAP implementation.

This review of 11 action items was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants.

This Agreed Upon Procedures does not constitute an audit, and we do not express an opinion on the specified elements, accounts, or items. In addition, we have no obligation to perform any procedures beyond those listed in the report that were designed to address the action items. request.

Action Items and Results

The procedures performed and the results are as follows:

Action Item I:

Recommendation I. To ensure that SANDAG's Board properly governs and develops a system of internal controls over salaries, compensation, and benefits:

I.1. Update Bylaws and Board Policy No. 017 (Delegation of Authority) to define the Executive Director's scope of responsibility regarding creating and maintaining the SANDAG Employee Handbook. Due 6/30/2021

OIPA Results – Reviewed the SANDAG Bylaws in referenced section to ensure the Executive Directors scope of responsibility includes the ability to make changes to the SANDAG Employee Handbook without Board approval but provided to the Board on an annual basis. Item sufficiently completed and matter closed.

I.2. Update Bylaws and Board policies to document the relationship between the Bylaws, Board policies, and Employee Handbook, and clarify the Executive Director's responsibilities regarding personnel administration. Due 6/30/2021

OIPA Results – Auditors reviewed SANDAG's revised Board Policy No. 017 that was approved by the Board on June 11, 2021 to verify that appropriate language has been added that provides the Executive Director delegated authority regarding various personnel actions without gaining board approval. Also, the auditor verified that there is sufficient language linking Bylaws to Board Policy and to the Employee Handbook as it relates to personnel matters. Furthermore, the auditors verified that on June 25, 2021, Agenda Item 14A, the Board ratified the employment decisions made by the Executive Director regarding salary increases and promotions that were subject to the audit. Item sufficiently completed and matter closed.

Action Item II:

Recommendation II. To ensure that management cannot approve termination payments that exceed the amounts set forth in Board policies and rules and regulations:

II.2. Develop an administrative policy related to separation/ termination pay; Update Bylaws and Board policies pertaining to setting and reporting any future severance payments to the Board. Due 6/30/2021

OIPA Results – Auditors reviewed SANDAG’s revised Board Policy No. 017 and SANDAG Bylaws that were approved by the Board on June 11, 2021 to verify that appropriate language has been added that provides the Executive Director delegated authority regarding various personnel actions without gaining board approval. Item sufficiently completed and matter closed.

Action Item III:

Recommendation III. To ensure that management and Board members cannot approve salary increases and large dollar payouts without justification:

III.3. Update Bylaws and Board policies to clarify the authority of Board leadership, as well as reporting protocol, for actions related to compensation. Due 6/30/2021.

OIPA Results – Auditors reviewed SANDAG’s revised Board Policy No. 001 Section 3.1.15 that was approved by the Board on June 11, 2021 to verify that appropriate language has been added that provides, with written concurrence by the Chair and Vice Chair, the ability to address time sensitive matters, when due diligence has been exercised to gain a quorum with the Executive Committee, for the Chair to act on behalf of the Executive Committee. The Chair must report the action taken on at the next Committee meeting. Item sufficiently completed and matter closed.

Action Item IV:

Recommendation IV. To ensure that SANDAG’s Board is properly informed of SANDAG business and information is presented clearly, accurately, and timely:

IV.1. Seek Board approval of a resolution defining special compensation; Update the Employee Handbook regarding items of special compensation. Org Due 2/28/2021 Postponed 6/30/2021

OIPA Results – Auditors reviewed SANDAG’s FY 2022 Special Compensation Table that was approved by the Board on May 14, 2021 to verify that language had been included regarding conditions for Lump Sum Merit Pay and treatment under CalPERS. Furthermore, auditors reviewed SANDAG’s Employee Handbook that was approved by the Board on June 11, 2021 to determine if appropriate language had been included regarding Special Compensation, specifically Section 6.10 and 7.13. Moreover, the auditors verified that the policy was posted on the SANDAG website and on the SANDAG employee Intranet site. Item partly and sufficiently completed. Additional testing will be performed in October (FY21) and December (FY22) and reported to the Audit Committee and Board of Directors.

Additional Testing: Testing will consist of data analytics that compare actual percentages of ALL

employee's salary increases and lump sum performance bonuses to determine if percentage increases are consistent and within reasonable ranges. Additionally, random and judgmental sampling will be performed to ensure that sufficient documentation exists to justify salary adjustments, lump sum bonuses, and for employee that did not receive adjustments.

IV.2. Develop an administrative policy related to approval of salary range and special compensation tables by the Board. Due 6/30/2021

OIPA Results – Auditors reviewed the Special Compensation Policy that includes language based on guidance provided by CalPERS. According to SANDAG Management the Special Compensation Policy is not required to be separately agendaized and therefore may be included as part of the Annual Proposed Budget and Final Budget Approval process. Also, auditors reviewed the provided Acknowledgements forms that were signed by the Executive Director, Senior Executive Team, and Manager of Human Resources that confirms their understanding of the Special Compensation Policy. Item sufficiently completed and matter closed.

IV.3. Strengthen practices related to budgeting, reporting, and communication of salary and benefits information to the Board. Due 6/30/2021

OIPA Results – Auditors reviewed two excel files of data provided by management titled FY2022 Budget- Cost of Compensation Adjustment Pools- April 21 and Final FY2022 Budget – Personnel Cost Summary – With HR Notes- April 21, and referenced oral presentation made to the Board on March 26 that provided additional and sufficient detail.

The documents address the CAP items and resolves the open item, however the OIPA recommends a more user-friendly methodology that may include a simplified flowchart of all employees and where they fit in the organization, by title and/or salary. Additional color coding can be provided that shows a continued and permanent position (FT/PT/LT) and newly added or proposed positions and where these positions would reside should the Board approve. This provides transparency, is easy to follow, and does not get lost in translation of dollars, benefits, and related percentages and risk overwhelming members with limited staff. Lastly, for future reference, auditors recommend that SANDAG Management provide written documentation that supports oral presentations that are presented to the Board. Item sufficiently completed and matter closed with an OIPA recommendation.

OIPA Follow-up Recommendation: OIPA extends an invitation to management to provide guidance in creating a more user-friendly document to present to the board. A dashboard type document to add as a summary that compliments the detail that SANDAG Management successfully provided.

IV.4. Strengthen practices related to preparation and communication of the annual compensation adjustment pool recommended to the Board. Due 6/30/2021

OIPA Results – Similar to IV.3, auditors reviewed two excel files of data provided by management titled FY2022 Budget- Cost of Compensation Adjustment Pools- April 21 and Final FY2022 Budget –

Personnel Cost Summary – With HR Notes- April 21, Item 14, Attachment 8 and Item 12, Attachment 4 of the March 26 and May 14 Board Agenda that provided additional support and sufficient detail.

The documents address the CAP items and resolves the open item, however the OIPA recommends a more user-friendly methodology that might include a simplified flowchart of all employees and where they fit in the organization, by title and/or salary. Additional color coating can be provided that shows a continued and permanent position (FT/PT/LT) and newly added or proposed positions and where these positions would reside should the Board approve. This provides transparency, easy to follow, and does not get lost in translation of dollars, benefits, and related percentages and risk overwhelming members with limited staff. Lastly, for future reference, auditors recommend that SANDAG Management provide written documentation that supports oral presentations that are presented to the Board. Item sufficiently completed and matter closed with an OIPA recommendation.

OIPA Follow-up Recommendation: OIPA extends an invitation to management to provide guidance in creating a more user-friendly document to present to the board. A dashboard type document to add as a summary that compliments the detail that SANDAG Management successfully provided.

IV.6. Employee acknowledgement of an administrative policy related to approval of salary range and special compensation tables by the Board (Action IV.2).

OIPA Results – Auditors reviewed the Special Compensation Policy that includes language based on guidance provided by CalPERS. According to SANDAG Management the Special Compensation Policy is not required to be separately agendaized and therefore may be included as part of the Annual Proposed Budget and Final Budget Approval process. Also, auditors reviewed the provided Acknowledgements forms that were signed by the Executive Director, Senior Executive Team, and Manager of Human Resources that confirms their understanding of the Special Compensation Policy. Item sufficiently completed and matter closed. It should be noted that SANDAG management successfully accomplished this task six months early.

Action Item VI:

Recommendation VI. To ensure adequate controls over approvals over performance incentives and special compensation:

VI.1. Present a special compensation table to the Board for approval.

OIPA Results – Similar to item IV.1 support provided to the auditor consisted of the same documents. Auditors reviewed SANDAG's FY 2022 Special Compensation Table that was approved by the Board on May 14, 2021 to verify that language had been included regarding conditions for Lump Sum Merit Pay and treatment under CalPERS. Furthermore, auditors reviewed SANDAG's Employee Handbook that was approved by the Board on June 11, 2021 to determine if appropriate language had been included regarding Special Compensation, specifically Section 6.10 and 7.13. Item sufficiently completed and matter closed.

Action Item VIII:

Recommendation VIII. To ensure justification and approval of number of executive team members and associated salaries:

VIII.4. Complete a salary range study to determine market rates for agency benchmark positions, including newly defined management positions.

OIPA Results – Auditors reviewed the Salary Range Study Report that was performed by CPS HR Consulting and determined that the report appears to be sufficient and includes a large range of SANDAG positions. However, auditors cannot attest to the accuracy or completeness of the survey, as the survey content provided, including the selected agencies used as comparable public agencies and the data presented were not reviewed or audited. However, auditors did review the completed report and determined that the flow of information and the methodology applied was sufficient. Item sufficiently completed and matter closed.

The OIPA would like to thank the Executive Director, Hasan Ikhata and SANDAG management and staff for their professionalism, responsiveness, and cooperation during this inquiry.

If you have additional questions, please contact me at (619) 595-5323 or mary.khoshmashrab@sandag.org.

Respectfully,



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cc: Members of the Board of Directors (SANDAG)
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