



THE OFFICE OF THE INDEPENDENT PERFORMANCE AUDITOR

October 13, 2023

Chair Vargas
SANDAG Board of Directors

Audit Committee Chair Zito
SANDAG Audit Committee

Dear Chair Vargas and Audit Committee Chair Zito:

Subject: Results – Audit ID PC2023-01: Continuous Auditing Operational Process and System Control Review – Purchase Cards for the period of March 1, 2022, to Current

The objectives of this engagement are to ensure that staff are adhering to SANDAG's purchase card policy, including the new policy that took effect on July 1, 2022, as part of the corrective action plan for the Operational and System Control Review – Purchase Cards engagement; ensure all corrective actions agreed to have been enacted and are being adhered to; and to apply tests and perform procedures to verify and assess SANDAG's ability to properly obtain, store and track supporting documentation and adequate records of processes and controls in adherence with policies and procedures

The auditors did not perform an audit of relative financial statements or other financial data or provide an opinion regarding the financial statements in part or taken as a whole, and accordingly, will not express such an opinion.

The audit consists primarily of testing controls and testing purchase card transactions to determine if applicable policies are being followed. The Office of the Independent Performance Auditor (OIPA) reviewed purchase card transactions for the period of March 1, 2022, to April 22, 2023.

The audit was performed as part of the board approved annual Audit Plan. The Audit Plan is risk based and prioritized by the level of risk to the agency. Risks are considered in both qualitative and quantitative perspectives.

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards (GAGAS), as required by federal and state governing code and under Assembly Bill 805.

The OIPA would like to thank the Chief Executive Officer, Hasan Ikhata, and SANDAG management and staff. If you have additional questions, please contact me at (619) 595-5323 or mary.khoshmashrab@sandag.org.

Board of Directors Chair: Nora Vargas
Audit Committee Chair: David Zito
Continuous Auditing Operational Process and System Control Review – Purchase Cards
Audit ID: PC 2023-01
October 13, 2023

Respectfully,

A handwritten signature in blue ink, reading "Mary E. Khoshmashrab", followed by a horizontal line extending to the right.

MARY E. KHOSHMAHRAB, MSBA, CFE, CPA
Independent Performance Auditor Office of the Independent Performance

cc: Members of the Board of Directors
Members of the Audit Committee
Hasan Ikhata, Chief Executive Officer
Ray Major, Deputy CEO, Business Operations
John Kirk, General Counsel
Andre Douzdjian, Chief Financial Officer
OIPA Website and Files

Enclosure: PC2023-01: Continuous Auditing Operational Process and System Control
Review – Purchase Cards



Office of the Independent
Performance Auditor

Continuous Auditing Operational Process and System Control Review – Purchase Cards

AUDIT No. PC 2023-01

Independent Performance Auditor, Mary Khoshmashrab, MSBA, CFE, CPA

October 2023

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BACKGROUND, SCOPE, AND METHODOLOGY

AGENCY BACKGROUND AND CREATION OF THE OFFICE OF THE INDEPENDENT PERFORMANCE AUDITOR

Founded in 1980, San Diego Association of Governments (SANDAG) was created by local governments as a long-range planning agency within the San Diego County government as a state-authorized joint powers authority. Currently SANDAG is defined by the State Controller’s Office as an Independent Special District. This public agency serves as the forum for regional decision-making. The agency builds consensus; makes strategic plans for the region; obtains and allocates resources; plans, engineers, and builds public transportation; conducts criminal justice research; and provides information on a broad range of topics pertinent to the region's quality of life.

SANDAG is governed by a Board of Directors composed of mayors, council members, and county supervisors from each of the region's 18 cities and County. Supplementing these voting members are advisory member representatives from Imperial County, the U.S. Department of Defense, California Department of Transportation, Metropolitan Transit System, North County Transit District, San Diego County Water Authority, San Diego Unified Port District, San Diego Regional Airport Authority, Southern California Tribal Chairmen's Association, and Mexico.

SANDAG currently has approximately 450 employees. The agency's program budget for fiscal year 2023-24 was \$1.2 billion. This budget included \$98.6 million in projected costs for the overall work program, \$69.5 million for regional operations, and the annual portion of the capital program is projected to be \$565.6 million, of which \$129.4 million was passed through to Caltrans District 11 and local agencies. The SANDAG financial outlook is tied to the health of the regional, state, national, and global economy. Economic performance can impact sales tax receipts and other sources of revenue that the agency depends on to carry out its projects and programs. Sales tax-based revenues such as Transportation Development Act and TransNet are a significant source of funding for both the Capital Program and the Overall Work Program (OWP).

On January 1, 2018, a new California Assembly Bill ([AB 805](#)) required the creation of the SANDAG Audit Committee, and an independent performance auditor (IPA) position. The Audit Committee is responsible for making recommendations to the SANDAG Board of Directors regarding the hiring and oversight of the work of the SANDAG independent performance auditor, the SANDAG annual audit plan, the external financial auditors for SANDAG, and internal control guidelines for the agency. The Audit Committee is also responsible for monitoring the implementation of any corrective actions arising from the audits.

SCOPE

The OIPA audited purchase card transactions and processes and procedures for the period of March 1, 2022, to April 22, 2023

METHODOLOGY

An audit of internal controls was limited to gaining a sufficient understanding of the internal control structure including documenting the understanding of internal controls and the controls components to help plan the review and to determine the nature, timing, and extent of tests to be performed. Gaining an understanding of internal controls consisted of reviewing, verifying, and identifying internal controls strengths and weaknesses by way of a questionnaire, narratives, flowcharting processes, and performing a walk-through of transactions as necessary, to develop appropriate auditing procedures.

Additionally, auditors followed procedures in accordance with SAS No. 122 and with SAS No. 99 that includes performing a brainstorming session regarding potential fraud as it relates to the audit and document the process.

The substantive audit procedures consisted of an examination of the evidence that supports the recording, authorizing, and approving; reviewing and reporting; and the monitoring and maintenance processes and procedures relevant to the review. The examination entailed testing of randomly and judgmentally selected samples as necessary.

Auditors' consideration of audit risk and materiality is a matter of professional judgment. There are quantitative and qualitative elements to consider when establishing a materiality factor.

Independent Performance Auditor: Mary Khoshmashrab, MSBA, CFE, CPA

Staff:

Lloyd Carter, Principal-in-Charge

Michael Ryan, Associate Auditor

AUDIT OBJECTIVES

UNDERSTANDING SANDAG'S PURCHASE CARD PROGRAM

At SANDAG, the Director of Accounting and Finance, assisted by the Finance Manager, identifies program areas that would benefit from having a SANDAG issued purchase card to support efficient and effective conduct of agency business.

SANDAG's Purchase Card Program operates through the CAL-Card program, a statewide program administered by the California Department of General Services (DGS). DGS allows local government agencies to enroll and participate in the CAL-Card program, which contracts with a merchant bank, currently U.S. Bank.

As a result of a prior review of SANDAG's Purchase Card Program, staff implemented a new Procurement Card Policy that became effective July 1, 2022. Similar to the previous policy, it establishes requirements and processes for the program, including logging of transactions, reconciliation of transaction logs with bank statements, approval of transaction logs, and documentation of receipts. However, the new policy includes additional requirements such as requiring explanations for transactions that occurred on a weekend or holiday, more explicit limitations on restaurant/food related transactions, the establishment of department credit limits, among other changes.

GENERAL AUDIT OBJECTIVES

The objectives of this engagement are to ensure that staff are adhering to SANDAG's purchase card policy, including the new policy that took effect on July 1, 2022, as part of the corrective action plan for the Operational and System Control Review – Purchase Cards engagement; ensure all corrective actions agreed to have been enacted and are being adhered to; and to apply tests and perform procedures to verify and assess SANDAG's ability to properly obtain, store and track supporting documentation and adequate records of processes and controls in adherence with policies and procedures.

The auditors did not perform an audit of relative financial statements or other financial data or provide an opinion regarding the financial statements in part or taken as a whole, and accordingly, do not express an opinion.

AUDIT RESULTS

FINDING I – REQUIREMENTS OF THE CURRENT PURCHASE CARD POLICY ARE NOT ALWAYS FOLLOWED

Auditors reviewed **153** out of **1,174** transactions from July 1, 2022, through April 22, 2023, and noted the following:

- **6** transactions did not include an explanation for the weekend or holiday use of the card.
- **1** transaction did not include the purpose or need for the purchase in its documentation.
- **2** transactions were auto renewals of subscription fees.
- **4** transactions were for online or hosted software services that did not have a purchase order issued.

SANDAG's Purchase Card Policy states that "strongly discourages the use of P-cards outside of regular business hours... If a P-card is used on a weekend or holiday, the charge should be noted on the transaction log and a brief explanation provided by the Cardholder."

SANDAG's Purchase Card Policy states that documentation for each transaction must include the following:

- Receipt and other external source documents
- Invoice
- Date of purchase
- Merchant's description of goods or services purchased, and the Cardholder should add any clarifying information to the description
- Brief information about the purpose/business need for the purchase
- Last four digits of the purchase account
- The OWP or CIP number to be charged.

SANDAG's Purchase Card Policy includes a list of examples where a purchase card may not be used, including but not limited to:

- Auto renewals of professional memberships and monthly/annual subscription fees
- Online or hosted software services unless documented as part of an approved purchase order or agreement.

Staff indicated to auditors that the requirement for an explanation for weekend and holiday transactions was overlooked. Staff noted that the 2 auto renewal subscriptions were inadvertently overlooked in their attempt to remove auto-renewals under purchase cards to comply with the current policy. Staff mistakenly followed the Micro-Purchase Policy rather than the Purchase Card Policy for the 4 transactions for online or hosted software services.

The risks to SANDAG are as follows:

- Paying for transactions that should not be allowed since non-allowable transactions are not rejected.
- Paying for personal staff transactions since complete supporting documentation is not always completely reviewed.

RECOMMENDATION:

The OIPA recommends staff:

1. Ensure all P-Card holders, all P-Card approving officials and Finance staff are thoroughly trained on the P-Card Policy, to include awareness of requirements for weekend and holiday transactions, clarity on allowable and unallowable transactions and required documentation and support. Training should also include examples of each.
2. Review all professional memberships and monthly/annual subscription fees paid for by purchase cards to ensure none are set to automatically renew.
3. Create an easily accessible Frequently Asked Questions (FAQ) document to address the most common errors or questions received by Finance.
4. Update the Micro-Purchase Policy and/or Purchase Card Policy to ensure they align in regard to required purchase orders for online or hosted software services.

FINDING II – USE OF FEDERAL FUNDS TO PAY FOR FOOD AT A GROUNDBREAKING EVENT

During review, auditors noted that on August 18, 2022, a purchase card transaction was made for \$2,089 for food for a groundbreaking event using federal funds.

According to Code of Federal Regulations (CFR) § 200.421 (d) the only *allowable* public relations costs are:

1. Costs specifically required by the Federal award;
2. Costs of communicating with the public and press pertaining to specific activities or accomplishments which result from performance of the Federal award (these costs are considered *necessary* as part of the outreach effort for the Federal award); or
3. Costs of conducting general liaison with news media and government public

relations officers, to the extent that such activities are limited to communication and liaison necessary to keep the public informed on matters of public concern, such as notices of funding opportunities, financial matters, etc.

Additionally, the CFR § 200.421(e)(2) states that *unallowable* advertising and public relations costs include costs of meetings, conventions, convocations, or other events related to other activities of the entity (see also § 200.432).

Further, CFR § 200.432 (as referenced above in the unallowable list under CFR 200.421(e)(2)) defines conferences as a meeting, retreat, seminar, symposium, workshop, or event whose primary purpose is the dissemination of technical information beyond the non-Federal entity and is *necessary* and *reasonable* for successful performance under the Federal award.

Staff submitted the expenses to Caltrans to allow Caltrans to determine allowability for reimbursement through use of federal funds instead of staff determining the allowability of using federal funds for public outreach events prior to submitting to Caltrans. Additionally, SANDAG comingles fund sources for projects, which allows use of fund sources designated for specific purposes that meet certain requirements, such as federal and state funds.

The potential risks to SANDAG are:

- Temporarily withholding cash payments
- Disallowing funds for the noncompliant activity/action
- Suspending or terminating the Federal award
- Suspension or debarment of the agency
- Withholding further Federal award

RECOMMENDATIONS:

The OIPA recommends:

1. If federal and state funds are used for Hospitality and Events, staff should ensure that the funding source used for payment(s) are in compliance with all relevant funding laws, rules, and regulations
2. Providing training to cardholders, project managers, finance staff, and any other relevant staff on the Hospitality and Events Policy.
3. When staff is uncertain of the allowability of using certain funds, staff should perform due diligence by verifying allowability and/or seeking approval with the federal oversight funding agency who have a better understanding of the Code of Federal Regulations.



September 28, 2023

TO: Mary Khoshmashrab, Independent Performance Auditor

FROM: Hasan Ikhata, Chief Executive Officer

SUBJECT: Management Response to OIPA Continuous Audit for Purchase Card Operational and System Controls

On behalf of the SANDAG Management Team, thank you for the opportunity to respond to the Office of the Independent Performance Auditor's (OIPA's) report pertaining to the Continuous Auditing Operational Process and System Control Review – Purchase Cards for the period of March 1, 2022, to Current. Management also appreciated the opportunity to discuss the preliminary results of the audit with the OIPA team and provide additional and explanatory information that was considered prior to preparation of the final draft report.

Management takes no exception to Finding I from the audit and will undertake OIPA's recommended corrective actions, as outlined in the Draft Audit Action Plan (see Attachment 1). The audit results have been used by Management to evaluate the effectiveness of the Purchase Card Policy which was restated and implemented in July 2022. Changes to the policy, as well as the procedures used for administering the P-card program, are being considered, and will be implemented in the months ahead as part of the Action Plan.

OIPA and Management discussed Finding II (use of federal funds to pay for hospitality expenses at a groundbreaking event) after issuance of the initial draft report. While Management respects OIPA's opinion regarding the allowable use of federal funds for this activity, Management also believes it has relied on credible resources (i.e., the funding agencies) in its determination of allowability. Management intends to undertake the three recommended corrective actions proposed by OIPA as described in the Draft Action Plan and is committed to increasing staff's knowledge regarding the allowed use of state and federal funds for hospitality-related expenses.

As I have indicated in responses to other audits, the SANDAG Management Team is committed to continuous improvement. I believe the results of this Continuous P-card Audit are a testament to this fact, and our policy and practices will be further refined based on the results that have been shared. This is an excellent example of OIPA and Management working collaboratively toward the shared goal of organizational efficiency, transparency, and success.

Please contact me with any questions regarding the information provided.

Sincerely,

HASAN IKHRATA
Chief Executive Officer

Attachment 1: Purchase Card Continuous Audit - Proposed Action Plan

Proposed Action Plan for Implementing the Purchase Card Continuous Audit Recommendations

The SANDAG Office of the Independent Performance Auditor (OIPA) completed a Continuous Auditing Operational Process and System Control Review – Purchase Cards in September 2023.

The audit resulted in 7 recommendations for consideration by SANDAG Management. The recommendations pertain to improving awareness of and adherence to the agency's Purchase Card policy as well as appropriate use of federal funds for certain types of expenditures. Management intends to address the proposed recommendations as part of the agency's commitment to continual improvement and to support the highest levels of organization performance. Actions to start implementing the recommendations have been initiated.

This proposed Action Plan (Plan) has been prepared by Management in response to the recommendations identified in the audit report and summarizes the actions SANDAG intends to undertake. Periodic progress updates shall be reported.

Finding I:

Requirements of the current Purchase Card policy are not always followed.

OIPA Recommendations	Management Planned Actions	Responsible Official	Estimated Completion Date
1. Ensure all P-Card holders, all P-Card approving officials and Finance staff are thoroughly trained on the P-Card Policy, to include awareness of requirements for weekend and holiday transactions, clarity on allowable and unallowable transactions and required documentation and support. Training should also include examples of each.	Management will provide additional training to employees with P-card related responsibilities to increase awareness and understanding of the P-card policy, in particular the items noted in the audit findings.	Lauren Warrem, Director of Accounting and Finance Melissa Coffelt, Senior Director of Organization Effectiveness	December 31, 2023

OIPA Recommendations	Management Planned Actions	Responsible Official	Estimated Completion Date
2. Review all professional memberships and monthly/annual subscription fees paid for by purchase cards to ensure none are set to automatically renew.	Management shall coordinate a review of recent P-card transaction logs and verify with Department Managers and Approving Officials that there are no unauthorized recurring expenses being charged to P-cards. If unauthorized expenses are identified, action will be taken to ensure future purchases have proper authorization. Management shall also review the Micro-Purchase and Purchase Card policies, and update both to ensure clarity regarding recurring expenses.	Lauren Warrem, Director of Accounting and Finance Melissa Coffelt, Senior Director of Organization Effectiveness	December 31, 2023
3. Create an easily accessible Frequently Asked Questions (FAQ) document to address the most common errors or questions received by Finance.	Management will develop additional resources and reference materials, including FAQs, to support effective administration and compliance with the P-card policy.	Lauren Warrem, Director of Accounting and Finance Melissa Coffelt, Senior Director of Organization Effectiveness	December 31, 2023
4. Update the Micro-Purchase Policy and/or Purchase Card Policy to ensure they align in regard to required purchase orders for online or hosted software services.	Management will review the Micro-Purchase and Purchase Card policies, and update both as needed to ensure there is clarity regarding purchases for online or hosted software services.	Lauren Warrem, Director of Accounting and Finance Melissa Coffelt, Senior Director of Organization Effectiveness	December 31, 2023

Finding II:

Use of Federal Funds to pay for food at a Groundbreaking Event.

OIPA Recommendations	Management Planned Actions	Responsible Official	Estimated Completion Date
1. If federal and state funds are used for Hospitality and Events, staff should ensure that the funding source used for payment(s) are in compliance with all relevant funding laws, rules, and regulations.	<p>Management will continue to consult with appropriate representatives from state and federal funding agencies to clarify and confirm the rules and regulations pertaining to the purchase of hospitality items.</p> <p>Management shall reference the relevant federal rules and regulations in the Hospitality and Events Policy, for use by project managers, Accounting staff, and other employees, that guides the allowable use of state and federal funds for the purchase of hospitality items. Training on this topic will be provided as part of Recommendation II.2.</p>	Lauren Warrem, Director of Accounting and Finance	March 31, 2024
2. Provide training to cardholders, project managers, finance staff, and any other relevant staff on the Hospitality and Events Policy.	Management shall review and update the Hospitality and Events Policy, including the procedures, and will provide training to employees who have responsibilities associated with the purchase of food and beverage for meetings and events.	<p>Lauren Warrem, Director of Accounting and Finance</p> <p>Melissa Coffelt, Senior Director of Organization Effectiveness</p>	March 31, 2024
3. When staff is uncertain of allowability, staff should perform due diligence by verifying allowability and/or seeking approval of fund use prior to submitting reimbursement claims. .	<p>Refer to Action II.1.</p> <p>Management shall reference the relevant federal rules and regulations in the Hospitality and Events Policy as a resource for staff that guides when federal and state funds may be used to purchase hospitality items, including who to consult if there are questions about allowability.</p>	Lauren Warrem, Director of Accounting and Finance	March 31, 2024



MEMORANDUM

September 29, 2023

TO: Hasan Ikhata, Chief Executive Officer

FROM: Mary Khoshmashrab, Independent Performance Auditor

SUBJECT: Auditor Response to Management Response (dated September 28, 2023) OIPA's Continuous Audit Operational Process and System Control Review – Purchase Cards

The Office of the Independent Performance Auditor (OIPA) appreciates Management's diligence and efforts to address the findings stated in the Draft Report that was emailed on September 22, 2023. The OIPA has reviewed the Management Response to the findings and has provided an Auditor Response.

FINDING II: USE OF FEDERAL FUNDS TO PAY FOR FOOD AT A GROUNDBREAKING EVENT

Management Response:

While Management respects OIPA's opinion regarding the allowable use of federal funds for this activity, Management also believes it has relied on credible resources (i.e., the funding agencies) in its determination of allowability.

Auditor Response:

Management reached out to the funding agency after the issuance of the initial draft audit report. The funding agency originally did not agree that it was an allowable reimbursement but stated that they would inquire with the "Area Engineers" to research the question. The funding agency stated, "*that based on CFR 200.421, it **appears** that the cost are eligible*" and further stated that "*Caltrans is requesting that SANDAG submit an invoice for the Outreach Event, when submitting the invoice package.*"

Determinations from the pass-through funding agency should have been requested *prior* to the fund use, particularly when uncertainty was presented, and not during the audit or after the audit results were presented to Management. When inquiring about a funding determination during an audit, auditors from the state and/or federal funding agency (i.e. FHWA) should be contacted directly for *confirmed* determination in writing.

CFR § 200.432 defines *conferences*, only when they are an *allowable* cost, and states the types of costs inclusive of a conference. However, CFR § 200.421 states that **unallowable** public relations costs include "Costs of meetings, conventions, convocations, or other events related to other activities of the entity (see also § 200.432)." CFR § 200.421 references *conferences* under the unallowable list of costs, therefore, the OIPA stands by its interpretation of CFR § 200.421 in that the cost of the noted event should not have been paid for with federal funds.

It should be noted that the OIPA's office referenced CFR 200.421 in the report as the criteria for Finding II.

Auditor Conclusion

The OIPA agrees that the results of the audit demonstrate that Management is committed to continuous improvement. The OIPA appreciates Management's willingness to seek out opportunities for continuous improvement to achieve the highest level of operational effectiveness possible for the agency and overall public good.

Please contact me with any questions regarding the information provided in this letter or in the *Auditor Response* to Management Response to the Audit Findings.

Sincerely,

A handwritten signature in blue ink, appearing to read "Mary Khoshmashrab", with a long horizontal flourish extending to the right.

MARY KHOSHMAHRAB, MSBA, CFE, CPA
Independent Performance Auditor, Office of the Independent Performance Auditor

cc: Hasan Ikhata, Chief Executive Officer
Ray Major, Deputy CEO, Business Operations
OIPA File