



***THE OFFICE OF THE INDEPENDENT PERFORMANCE AUDITOR***

October 22, 2021

Chair Zito,  
SANDAG Audit Committee

Mayor Casillas Salas,  
SANDAG Board of Directors Member

Subject: Independent Performance Auditor's Report on Applying Agreed Upon Procedures for SR 125

Dear Chair Zito and Mayor Casillas Salas:

As a member of the SANDAG Board of Directors, you requested that the Office of the Independent Performance Auditor (OIPA) review all monies collected and expended by the SR 125 Fund in 2017 through 2020 and determine whether they were reasonable, appropriate, and proportionately allocated. The request resulted from efforts to find additional savings that could be applied toward paying off related debt earlier than currently scheduled.

**Objective**

The overall objective of this Agreed-Upon Procedures (AUP) engagement is to determine whether SR 125 Fund charges and expenditures from July 1, 2017 to June 30, 2020 are appropriate, reasonable, and proportionately allocated.

This AUP engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. The OIPA makes no representation regarding the sufficiency of the procedures for the purpose of which this report has been requested or for any other purpose.

This AUP 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 your request.

**Procedures and Results**

Auditors performed procedures to obtain the information for the six specific items requested in your memo. The results of these procedures, as well as any professional judgements the auditors rendered regarding the appropriateness and reasonability of allocations or charges, are presented after each procedure.

**Request Item 1:**

Identify all positions charged to the SR 125 Fund.

**Procedure:**

Auditors identified the positions charged to SR 125 from payroll files provided by SANDAG.

**Results:**

Table 1 below shows the number of employees working at the Toll Operations Center (TOC), as well as the number of employees working at other locations who charged time to the SR 125 Fund.

**Table 1 – Employees Billed to SR 125 Fund**

	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020
Employees Located at TOC <sup>1</sup>	72	75	73
Employees at Other Locations who Charged Time to SR 125	65	74	78

Employees working on SR 125 are located at TOC, whereas employees who work at other locations only devote a portion of their time to SR 125 matters. The figures shown in Table 1 do not include temporary employees whose costs were billed to the SR 125 Fund. Temporary employees were hired through staffing companies, and their costs are included in Table 2.

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<sup>1</sup> Note that these figures may be overstated due to a limitation in SANDAG’s hiring and payroll system: Employees who initially worked at TOC but later transferred to other locations retain TOC as their coded work location. However, OIPA confirmed that the status does not impact the cost element of SR125.

**Request Item 2:**

Determine all personnel costs being charged to the SR 125 Fund and if the charges are reasonable and appropriate.

**Procedure:**

Auditors totaled all personnel costs charged to the SR 125 Fund from payroll files provided by SANDAG. Auditors compared personnel costs to those reported in South Bay Expressway's<sup>2</sup> audited financial statements to determine if charges are reasonable and appropriate; as a reminder, auditors did not perform an audit on documents provided by SANDAG management or staff.

**Results:**

Table 2 below presents labor expenses charged to the SR 125 Fund for SANDAG employees working at the TOC and at other SANDAG locations. It also identifies expenses for temporary employees who are hired through staffing agencies, as well as labor charges that are capitalized.

**Table 2 – Labor Costs Charged to the SR 125 Fund**

	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020
Labor Expenses for Employees at TOC	\$4,595,117	\$5,111,477	\$5,274,630
Labor Expenses for Employees at Other Locations	\$790,603	\$1,089,112	\$1,693,846
Costs for Temporary Employees	\$262,086	\$176,614	\$72,958
Capitalized Labor Charges	\$494,513	\$532,497	\$438,466

Labor expenses for SANDAG employees include salaries and fringe benefits. Fringe benefits

<sup>2</sup> Although SR125 and the South Bay Expressway differ, their financial information is similar in that the financial statements are prepared and audited separately before being combined into SANDAG's financial statements as enterprise funds.

encompass pension and other postemployment benefit costs, and they are addressed in the procedure for Request Item 3.

According to SANDAG management, temporary employees are mainly used to support the customer service and toll operations work areas. Temporary employees frequently fill positions for regular employees who have taken a leave of absence, and also fill vacant positions until permanent candidates are hired. Less frequently, temporary employees are retained to help address increases in administrative workload and clear work backlogs.

While employee salaries and related costs are usually classified as period costs according to generally accepted accounting principles, they can be classified as capital costs if they are related to the construction of an asset. In such a case, these costs are not expensed; rather, they are added to the cost of the asset, and later depreciated over the life of the asset.

Table 3 compares the figures in Table 2 to those from audited financial statements for the SR 125 Fund.

**Table 3 – Variance Between Payroll and Financial Statement Figures for Labor Costs Charged to the SR 125 Fund**

	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020
Payroll and Other Compensation Expenses (per Audited Financial Statements)	\$6,106,156	\$6,705,241	\$7,698,183
Totals from Payroll files	\$6,142,319	\$6,909,700	\$7,479,901
Variance amount	\$36,163	\$204,459	\$218,282
Variance percentage	0.6%	3.0%	2.9%

While there are variances between the total amounts in the payroll files and the audited

financial statements, these differences can be explained by timing differences<sup>3</sup>. Based on the auditors' review of payroll files, the comparison in Table 3, and discussions with SANDAG management, it appears that personnel costs charged to SR 125 are appropriate.

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<sup>3</sup> The start and end dates for the first and last pay period in a fiscal year generally do not coincide with the start and end dates of the fiscal year. A payroll period is two weeks long and runs from Sunday to Saturday. The start and end dates for SANDAG's fiscal year are July 1 and June 30, respectively.

**Request Item 3:**

Determine appropriate allocation of CalPERS and Other Post-Employment Benefit (OPEB) pension cost allocated to the SR 125 Fund.

**Procedure:**

Auditors totaled fringe benefit amounts (which include pension and OPEB costs) from payroll reports provided by SANDAG, reviewed fringe benefit rates, and reviewed audited financial statements and related actuarial reports.

**Results:**

Table 4 below presents fringe benefit costs charged to the SR 125 Fund for employees working at the TOC and at other SANDAG locations.

**Table 4 – Fringe (Pension and OPEB) Costs Charged to the SR 125 Fund Per Payroll Reports**

	Fringe Rate or Range	Percentage of Fringe Benefits Paid at This Rate	Fringe Amount
<b>Fiscal Year 2018</b>	5.36% - 28.70%	0.44%	\$9,324
	67.47% - 67.66%	22.37%	\$474,000
	73.67% - 73.68%	77.19%	\$1,635,155
			<b>\$2,118,479</b>
<b>Fiscal Year 2019</b>	1.80% - 42.39%	0.68%	\$17,924
	75.71% - 76.47%	24.56%	\$645,973
	88.68%	74.75%	\$1,965,859
			<b>\$2,629,756</b>
<b>Fiscal Year 2020</b>	1.51% - 40.95%	0.08%	\$2,295
	75.65% - 75.76%	29.87%	\$855,985
	88.29% - 88.39%	70.05%	\$2,007,737
			<b>\$2,866,018</b>

Although the audited financial statements for SR 125 (AKA and titled SBX) include payroll and other compensation expenses, these expenses are aggregated and do not separately show pension and OPEB payments.

Management also provided us with two actuarial reports for SANDAG. The first is GASB No. 75 Actuarial Valuation that pertains to OPEB liabilities, and the second is GASB No. 68 Actuarial Valuation that pertains to pension liabilities. GASB No. 75 report was prepared by an actuarial consulting firm, and GASB No. 68 report is issued by CalPERS. These reports are required by the respective Government Accounting Standards Board (GASB) statements.

SANDAG management also provided the OIPA's office with supporting schedules for those reports. However, a review of these schedules was not possible due to the budget hours allotted for this AUP engagement.

Based on the auditors' review and assuming the unaudited Indirect Cost Rate Proposal (ICRP) and Overhead rate calculations are accurate and reliable, the fringe benefit amounts appear appropriate.

**Request Item 4:**

Review overhead allocations to the SR 125 Fund to determine appropriate share of costs.

**Procedure:**

Auditors reviewed payroll reports provided by SANDAG, totaled overhead costs, and verified overhead rates charged to the SR 125 Fund.

**Results:**

Table 5 below presents overhead costs charged to the SR 125 Fund for employees working at the TOC and at other SANDAG locations.

**Table 5 – Overhead Cost Allocations Charged to the SR 125 Fund**

	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020
Overhead Expenses <sup>4</sup>	\$267,890	\$434,268	\$692,552

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<sup>4</sup> The payroll files provided by SANDAG showed overhead charges for eleven employees located at the TOC. The OIPIA's office reviewed these charges to understand why there were overhead charges associated with employees working at the TOC. Eight of these employees had worked at the TOC but later moved to different positions at other SANDAG locations; the remaining three were managers who had divided their time between the TOC and other locations. SANDAG's current payroll system is not configured to recode employees who initially worked at TOC but later transfer to other locations.

Overhead rates represent an allocation of general and administrative costs. According to SANDAGs' management, they are computed as a fixed percentage of an employee's hourly pay (excluding fringe benefits). As noted below, the TOC is specifically excluded from the ICAP. However, SANDAG uses the same overhead rate as the Indirect Cost Allocation Plan (ICAP) for purpose of internal cost recovery. The overhead rates in the ICAP for fiscal years 2018, 2019, and 2020 were 76.87 percent, 78.26 percent, and 78.65 percent, respectively. The OIPA's office verified that these were the rates used in the payroll file which SANDAG provided.

Note that most indirect costs that SANDAG recovers are through reimbursements from federal grants. To recover indirect costs, SANDAG is required to prepare and submit an ICAP. The ICAP establishes indirect cost rates – which encompass employee pension and benefit costs – and provides a detailed report of SANDAG's methodology for calculating indirect costs. The ICAP is intended to ensure compliance with federal cost allocation requirements.

In the past, the ICAP has been self-prepared and reported, reviewed, and approved by the California Department of Transportation (Caltrans), but it has not been audited by Caltrans or another external party. The ICAP was identified as a high-risk area during the organization-wide risk assessment conducted by the OIPA and included in the FY 2021 annual audit plan. Although the OIPA did not have sufficient resources to audit the ICAP this fiscal year, SANDAG management informed the OIPA that the Federal Transit Administration is currently auditing the ICAP.

Based on the auditors' review of overhead charges, these charges appear appropriate.



**Request Item 5:**

Identify expenditures and compliance for allocations to CIP projects outside of the SR 125 site, if any.

**Procedure:**

Auditors reviewed budget documents, expenditure reports, and project agreements for Capital Improvement Projects (CIP) allocated to the SR 125 Fund.

**Results:**

SANDAG management provided auditors with a listing of five projects funded from SR 125 revenues, as well as a summary of expenditures from these projects. As a reminder these projects and associated cost were not audited by OIPA. These projects are presented in Table 6.

**Table 6 – Capital Improvement Project Costs Charged to the SR 125 Fund**

Project No.	Project Name	Budgeted Funding from SR 125 Revenues	Total Expended <sup>5</sup>
1130102	Financial System Upgrade – Contract Management System	\$50,000	\$37,332
1142600	Joint Transportation Operations Center	1,553,000	\$64,382
1201103	SR 11 and Otay Mesa East Port of Entry: Segment 2A and SR 905/125/11 Southbound Connectors Construction	\$16,700,000	\$5,324,410
1280504	South Bay Bus Rapid Transit (BRT)	\$6,500,000	\$6,500,000
1390505	SR 905/125/11 Southbound Connector	\$19,200,000	\$5,893,951

<sup>5</sup> As of June 30, 2020.

CIP projects are funded by a combination of federal, state, and local revenues. Federal grants and some state funding programs impose a matching requirement on grant recipients. The matching requirement obligates recipients to contribute a percentage of project costs as a condition of grant funding. Table 7 shows the percentage of funding from SR 125 revenues for each project as a percentage of total project cost.<sup>6</sup>

**Table 7 – Percentage of Capital Improvement Project Costs Budgeted From the SR 125 Fund**

Project No.	Project Name	Budgeted Funding from SR 125 Revenues	Total Project Cost	Percent from SR 125
1130102	Financial System Upgrade – Contract Management System	\$50,000	\$1,052,000	4.8 %
1142600	Joint Transportation Operations Center	\$1,553,000	\$14,518,000	10.7 %
1201103	SR 11 and Otay Mesa East Port of Entry: Segment 2A and SR 905/125/11 Southbound Connectors Construction	\$16,700,000	\$132,047,000	12.6 %
1280504	South Bay Bus Rapid Transit (BRT)	\$6,500,000	\$123,672,000	5.3 %
1390505	SR 905/125/11 Southbound Connector	\$19,200,000	\$68,947,000	27.8 %

For several federal funding programs, the State’s role is to simply pass federal funds to local agencies through grants or according to apportionment formulas. However, on some CIP projects, the State receives local funds from SANDAG. A Master Agreement between SANDAG and Caltrans provides a framework for collaborative agreements between the two

<sup>6</sup> Note that the percentages in Table 7 do not correspond to federal match requirements, as additional local funding may also be provided by other local agencies or from other SANDAG sources.

agencies. The Master Agreement allows for the transfer of funding between the two agencies and defines the working relationship between them. Specific agreements are effected through Project Implementation Orders.

According to SANDAG management, grants that impose a matching requirement on SANDAG do not specify SANDAG’s revenue source.

OIPA auditors attempted to gather evidence that supports the percentage allocated to SR125 and was unable to obtain support. According to SANDAG management the proportion of funding allocated to the SR 125 Fund and other SANDAG revenue sources is a SANDAG management decision, made within funding eligibility requirements and based on levels of funding available.<sup>7</sup>

SANDAG’s compliance with federal grant funding requirements is audited annually as part of SANDAG’s Comprehensive Annual Financial Report audit. Auditors reviewed these audit reports and noted no compliance issues.

**Request Item 6:**

Determine proper allocation of interest earned to the SR 125 Fund.

**Procedure:**

Auditors reviewed budget documents and audited financial statements.

**Results:**

Interest income for fiscal yeas 2018, 2019, and 2020 is show in Table 8.

**Table 8 – Interest Earned by SR 125 Fund**

	Fiscal Year 2018	Fiscal Year 2019	Fiscal Year 2020
Interest Income as Reported on the South Bay Expressway’s Audited Financial Statements	\$1,077,968	\$1,856,826	\$1,310,907

SANDAG’s management asserted that the SR 125 Fund does not allocate its interest income

<sup>7</sup> The decision is implicitly approved by SANDAG’s Board of Directors (Board) when the Board approves SANDAG’s Program Budget.

to other locations; that interest income generated by SR 125 bank and trustee accounts is entirely allocated to the SR 125; and that the SR 125 cash is segregated to the specific roadway alone. All interest income generated stays in the trustee and bank accounts and is utilized for future purchases solely related to the SR 125 roadway.

**Restricted use:** This report is intended solely for the information and use as determined by the Mayor Casillas Salas and the SANDAG Board of Directors and is not intended to be and should not be used by anyone other than the specified parties.

The OIPA would like to thank the Chief Executive Officer, 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](mailto:mary.khoshmashrab@sandag.org).

Respectfully,



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

cc:           Members of the Board of Directors (SANDAG)  
              Members of the Audit Committee (SANDAG)  
              Hasan Ikhata, Executive Director (SANDAG)  
              Andre Douzdjian, Chief Financial Officer (SANDAG)  
              OIPA Files/Website