

Audit Policy Advisory Committee and Audit Activities

1. Purpose

The purpose of this policy is to specify the functions of the Audit Committee and the SANDAG Independent Performance Auditor.

2. Governance and Role of the Audit Committee

- 2.1 The Audit Committee shall be overseen by the SANDAG Board of Directors and shall govern itself in accordance with Public Utilities Code Sections 132351.4 and 132354.1, and the policies and procedures applicable to all SANDAG Policy Advisory Committees.
- 2.2 Membership of the Audit Committee shall be as set forth in Board Policy No. 002:
- 2.3 Policy Advisory Committee Membership. The Audit Committee shall consist of five voting members with two members of the Board of Directors and three members of the public, all of which shall be appointed by the Board of Directors. Due to the qualification requirements and selection process described in this policy, Audit Committee members and alternates shall be selected according to the processes below.
- 2.4 The Chair of the Board will select which members of the Audit Committee will hold the Chair and Vice Chair positions on the Audit Committee every two years or whenever a position is vacant.
- 2.5 The role of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities and provide a forum for pursuing the opportunities for improvements in operations, financial reporting and internal controls identified through the agency's audit products.

3. Authority of the Audit Committee

- 3.1 The Audit Committee may hear items within the subject areas of audits, internal controls and investigations into fraud, waste, or impropriety, and may be asked to provide actions or recommendations on other matters within the Audit Committee's purview. The responsibilities of the Audit Committee include:
 - 3.1.1 Recommend to the Board which firm to contract with to conduct the annual financial statement audits and oversee the conduct of such audits.
 - 3.1.2 Meet with management and the independent performance auditor to review and discuss SANDAG's annual financial statement audits, internal control reports and other audits performed by external auditors.
 - 3.1.3 Review and oversee the implementation of corrective action to address noted audit deficiencies.
 - 3.1.4 Based on the Board's direction regarding whether to hire an individual or firm, recommend to the Board which individual or firm to hire to carry out independent performance auditor responsibilities.

- 3.1.5 Recommend to the Board the annual compensation of the independent performance auditor.
- 3.1.6 Oversee the work of the independent performance auditor in preparing and issuing audit and investigative reports and other audit, review or attest activities.
- 3.1.7 Approve the annual audit plan after discussion with the independent performance auditor, pursuant to Public Utilities Code Section 132354.1(b), and make recommendations to the Board regarding the budget needed to carry out the annual audit plan of the independent performance auditor.
- 3.1.8 Monitor the implementation of the annual audit plan and provide an annual report to the Board.
- 3.1.9 Monitor the implementation of corrective action identified in audit and investigative reports and inform the Board when corrective action is insufficient or untimely.
- 3.1.10 Independently communicate with the IPA consistent with the limitations set forth in the Brown Act.
- 3.1.11 Conduct the independent performance auditor's annual performance evaluation against performance measures established and adopted by the Audit Committee.
- 3.1.12 Vote on whether to remove the independent performance auditor for cause including, but not limited to incompetence, dishonesty, unethical behavior, violation of state or federal laws, or failure to maintain required professional certifications; such removal being subject to an approving vote by two-thirds of the Audit Committee and the Board.
- 3.1.13 Recommend internal control guidelines to be adopted by the Board to prevent and detect financial errors and fraud based on the internal control guidelines developed by the State Controller pursuant to Government Code Section 12422.5 and the standards adopted by the American Institute of Certified Public Accountants.

4. Selection of Audit Committee Members

- 4.1 The Board members serving on the Audit Committee shall be appointed by the Board using the procedures in this subsection 4.1.
 - 4.1.1 The two Board members and any Board member alternates serving on the Audit Committee shall be recommended for appointment by the Chair of the Board. The Chair of the Board shall select Board members to recommend to the Board based on the following criteria:
 - 4.1.1.1 The Board member shall have served on the Board for at least three years;
 - 4.1.1.2 The Board member shall have a basic understanding of the role of the Audit Committee; and
 - 4.1.1.3 The Board member shall express a willingness to work through the Audit Committee to pursue opportunities for improvements in operations, financial reporting, and internal controls identified through the agency's audit products.
 - 4.1.2 The Board members recommended by the Chair of the Board shall be subject to approval by a majority vote of the Board.

- 4.1.3 Audit Committee members shall serve until their successors are appointed. In the event that the Board member who has been appointed to serve on the Audit Committee is no longer a primary or alternate member of the Board of Directors, the position shall be considered vacant. If and when vacancies in the voting membership of the Audit Committee occur, the same selection process as outlined above shall be followed to select a replacement.
- 4.1.4 Board members appointed to the Audit Committee shall serve a term of two years. At the completion of a term, eligible incumbent members will need to apply for reappointment for another term. In no case shall any member serve more than five years on the Audit Committee.
- 4.2 The public members serving on the Audit Committee shall be appointed by the Board using the procedures in this Subsection 4.2.
 - 4.2.1 Whenever there is a vacancy for a public member seat on the Audit Committee, application forms will be made available on the SANDAG website for persons interested in applying for an Audit Committee position. Applications shall be due within 30 days after the application forms are posted. Only candidates who submit an application by the deadline will be considered.
 - 4.2.2 Applicants shall possess the independence, experience, and technical expertise necessary to carry out the duties of the Audit Committee. This expertise includes, but is not limited to, knowledge of accounting, auditing, and financial reporting. The minimum professional standards for public members shall include at least ten years of experience as a certified public accountant or as a certified internal auditor, or ten years of other professional accounting, financial, or legal experience in audit management.
 - 4.2.3 The candidates shall be recommended by a majority vote of a screening committee composed of a member of the Board selected by the Chair of the Board, the chief financial officer or finance director of a SANDAG member agency, and at least one outside financial expert appointed by the other two members of the screening committee and confirmed by the Board. Persons serving on the screening committee shall sign a declaration establishing that they do not have a conflict of interest.
 - 4.2.4 The screening committee may interview one or more of the candidates. The screening committee shall submit its recommended nominee(s) for the position(s). The screening committee also may nominate alternates from among the applicants.
 - 4.2.5 In the event that the screening committee is unable to recommend any of the applicants for any or all positions, or an insufficient number of applications have been received, the screening committee may recommend a supplemental process, subject to Board approval. The constraints set forth in the normal nomination process shall not be mandated to apply to the supplemental process.
 - 4.2.6 The public members nominated by the screening committee shall be subject to approval by a majority vote of the Board.
 - 4.2.7 Audit Committee members shall serve until their successors are appointed. If and when vacancies in the voting membership of the Audit Committee occur, the same selection process as outlined above shall be followed to select a replacement to fill the remainder of the term.

4.2.8 Public members appointed to the Audit Committee shall serve a term of two years. At the completion of a term, eligible incumbent members will need to apply for reappointment for another term. In no case shall any member serve more than five years on the Audit Committee.

5. Selection of Independent Performance Auditor

5.1 The independent performance auditor shall serve a two-year term and shall be selected by the Board on the basis of qualifications and experience, which include, but are not limited to:

5.1.1 At least ten years of experience performing audits under Government Audit Standards;

5.1.2 At least five years of management experience;

5.1.3 A Bachelors or higher degree in business, public administration, finance, accounting or a related field; and

5.1.4 Possession of a Certified Public Accountant or Certified Internal Auditor license or certificate.

6. Scope of Authority and Responsibilities of Independent Performance Auditor

6.1 The independent performance auditor shall report to the Audit Committee and shall be independent of SANDAG's internal management and administration, except that SANDAG's Director of Finance role shall maintain administrative oversight of the IPA's monthly timesheets and tracking of annual leave.

6.2 The objective of the IPA is to serve as the Board of Directors oversight function that objectively evaluates and recommends improvements to SANDAG including prioritizing its efforts by continuously facilitating an objective risk assessment. The Independent Performance Auditor's audit functions are designed to include timely reporting of significant issues to appropriate oversight authorities.

6.3 The IPA may facilitate and conduct a risk assessment process to assist management to logically identify key risks within SANDAG and its components and shall annually present and discuss risk with the Committee to receive input and feedback. As part of the aforementioned process, the IPA shall receive input from SANDAG's executive management and staff, the Committee, and the Board of Directors as to the risk factors that the Committee deems most important to SANDAG.

6.4 Based upon the results of the risk assessment, the independent performance auditor shall annually prepare an audit plan and conduct audits in accordance therewith. The independent performance auditor shall have authority to conduct, or to cause to be conducted, performance audits of SANDAG departments, offices, boards, activities, agencies, and programs and perform those other duties as may be required by the Board or as provided by the California Constitution and general laws of the state.

6.5 The IPA will oversee and conduct independent examinations, including audits, of SANDAG programs, functions, operations, or management systems and procedures. In performing such audits, the IPA will independently and objectively assess whether:

6.5.1 Activities and programs being implemented have been authorized by the appropriate governing laws or codes, state or local law, or applicable federal law or regulations.

6.5.2 Activities and programs are in compliance, properly conducted, and funds expended in accordance with the applicable laws.

- 6.5.3 The departments, divisions, or agencies are acquiring, managing, protecting, and using its resources, including public funds, personnel, property, equipment, and space, economically, efficiently, equitably, and effectively, and in a manner consistent with the objectives intended by the authorizing entity or enabling legislation.
 - 6.5.4 The entity, programs, activities, functions, or policies are effective, including the identification of any causes of inefficiencies or uneconomical practices.
 - 6.5.5 The desired result or benefits are being achieved.
 - 6.5.6 Financial and other reports are being provided that disclose fairly, accurately, and fully all information required by law, to ascertain the nature and scope of programs and activities, and to establish a proper basis for evaluating the programs and activities including the collection of, accounting for, and depositing of revenues and other resources.
 - 6.5.7 Management has established adequate operating and administrative procedures and practices, fiscal and accounting systems, and an adequate system of controls or internal management controls.
 - 6.5.8 Indications of fraud, abuse, waste, misappropriation, or illegal acts are valid and need further investigation.
- 6.6 The IPA may also perform external reviews of contracts or service programs of entities that are awarded funds overseen by SANDAG.
- 6.7 The independent performance auditor shall from time to time advise the Audit Committee on existing and evolving governance practices that may be best suited for SANDAG.
- 6.8 The independent performance auditor shall follow the most recent version of Generally Accepted Government Auditing Standards as published by the United States Government Accountability Office.
- 6.9 The Committee shall approve the processes pertaining to follow-up audit procedures, if appropriate. The IPA shall have procedures in place to track, monitor, and evaluate the status of identified control issues with a tracking mechanism and with consideration to the risk of each issue and the cost and benefit of various audit procedure alternatives.
- All officers and employees of SANDAG shall furnish to the independent performance auditor unrestricted access to employees, information, and records, including electronic data, within their custody regarding powers, duties, activities, organization, property, financial transactions, contracts, and methods of business required to conduct an audit or otherwise perform audit duties. It is also the duty of any consolidated agency officer, employee, or agent to fully cooperate with the auditor, and to make full disclosure of all pertinent information, with the exception of information that is protected by law from disclosure.
- 6.10 The IPA shall hold data and information obtained during the course of its audit activities with due care and the appropriate level of confidentiality. Unless otherwise mandated by law, the IPA shall have authority to grant, limit, and restrict access to work papers and records.
- 6.11 The IPA shall communicate results of its work and otherwise known issues to management and the Committee. The IPA shall form and report appropriate opinions based on audit evidence. Management shall provide responses to issues in a prompt and efficient manner. Written reports may be distributed to the Committee, SANDAG's Management, and if appropriate for reports containing significant issues or when there is a disagreement with management other than minor in nature, to the Board of Directors. The IPA shall provide summary information to the Committee pertaining to issues resulting from audit procedures as well as known issues outside of the audit scope of review. Additionally, the IPA shall provide the Committee with an annual

assessment as to the effectiveness of management's attention to resolving identified control issues.

- 6.12 The independent performance auditor shall prepare a proposed budget and submit it to the Audit Committee for a recommendation to the Board of Directors for its approval 180 days prior to the beginning of each fiscal year or as otherwise requested by the Director of Finance.
- 6.13 The independent performance auditor shall have the power to appoint, employ, and remove assistants, employees, and personnel as deemed necessary for the efficient and effective administration of the affairs of the independent performance auditor. The independent performance auditor may prescribe the duties, scope of authority, and qualifications of employees and consultants overseen by the independent performance auditor. The independent performance auditor's authority shall be subject to the annual audit plan and the budget approved by the Board, SANDAG rules and policies related to the management and hiring of SANDAG employees and consultants, and the scope of the independent performance auditor's purview as determined by the Board.
- 6.14 The independent performance auditor may investigate any material claim of financial fraud, waste, or impropriety within SANDAG and for that purpose may summon any officer, agent, or employee of the consolidated agency, any claimant, or other person, and examine him or her upon oath or affirmation relative thereto. The independent performance auditor will conduct investigations generally following the procedures recommended by the Association of Certified Fraud Examiners' Fraud Examiners Manual for any allegations of financial fraud, waste or impropriety. Prior to questioning any person under oath, the independent performance auditor shall advise the members of the Audit Committee of that intention, seek legal counsel from the Office of General Counsel or outside counsel under contract to SANDAG regarding the relevant legal issues, and document the reasons why the questioning must be done under oath instead of by some other form of affirmation.
- 6.15 The independent performance auditor shall coordinate audit functions such that there is no duplication of effort between the audits undertaken by the independent performance auditor and audits undertaken by the Independent Taxpayer Oversight Committee.
- 6.16 Pursuant to Government Code section 8546.7, when the amount of a contract will exceed \$10,000, SANDAG and the State Auditor, at the request of SANDAG or as part of any audit of SANDAG, have authority to examine and audit a contracting party for a period of three years after SANDAG's final payment on the contract, whether or not audit language is included in the contract document. As an additional measure, all SANDAG contracts with consultants, vendors, or agencies in excess of \$25,000 in aggregate within a fiscal year, which call for a contracting party to provide goods or services to SANDAG over a period of time, will be prepared with an adequate audit provision to allow the independent performance auditor access to the entity's records needed to verify compliance with the terms specified in the contract. The intent of this provision is to put parties contracting with SANDAG on notice that the independent performance auditor will have the right to audit both the party's accounting methods and performance on such contracts
- 6.17 Results of all audits and reports shall be made available to the public in accordance with the requirements of the California Public Records Act (Chapter 3.5 [commencing with Section 6250] of Division 7 of the Title 1 of the Government Code). Final versions of formal reports also shall be posted on the SANDAG website.

6.18 All materials or services needed by the independent performance auditor shall be procured using an open and competitive basis with solicitation of proposals from the widest possible number of qualified firms as prescribed by SANDAG procedures for procurement. The scope of work of all such consultant work shall be subject to approval by the independent performance auditor prior to any such solicitation.

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