SANDAG

OIPA | Office of the Independent Performance Auditor

PERFORMANCE AUDIT OF SANDAG'S INVENTORY MANAGEMENT OF MAJOR AND MINOR ASSETS

Independent Performance Auditor
Courtney Ruby, CPA, CFE

Audit Team
Michelle Ludwick, CIA, CGAP, Deputy Independent Performance Auditor
Kathleen Medlin, CIA, CGAP, Senior Independent Auditor

August 31, 2026

SANDAG
OIPA | Office of the Independent Performance Auditor

Courtney A. Ruby, CPA, CFE
Independent Performance Auditor

August 31, 2026

Lesa Heebner, Chair
SANDAG Board of Directors

Jack Fisher, Chair
SANDAG Audit Committee

SUBJECT: PERFORMANCE AUDIT OF SANDAG'S INVENTORY MANAGEMENT OF MAJOR AND MINOR ASSETS FOR THE PERIOD OF JULY 1, 2024, THROUGH JUNE 30, 2025

Dear Chair Heebner and Chair Fisher:

The Office of the Independent Performance Auditor (OIPA) has completed the Performance Audit of SANDAG's Inventory Management of Major and Minor Assets for the period of July 1, 2024, to June 30, 2025.

OIPA originally initiated an audit of inventory management in 2023; however, it was discontinued to allow Management time to address significant internal control weaknesses identified by OIPA.

This audit's objectives were to determine if Management implemented its planned corrective actions in response to OIPA's discontinued audit, assess the design and adequacy of SANDAG's inventory management processes, and evaluate whether assets were accurately recorded, properly safeguarded, and effectively managed.

The audit found:

- Management did not resolve previously identified shortfalls that caused OIPA to discontinue its initial inventory management audit in 2023.
- The absence of an established inventory management system prevents SANDAG from accurately identifying and adequately safeguarding its major and minor assets.
- An insufficient capital asset process resulted in inaccurate and incomplete financial records.

- The Agency has not established a comprehensive asset management framework and, instead, its approach to asset management is mostly reactive to financial reporting requirements rather than proactive in ensuring effective stewardship of Agency resources.

Additionally, OIPA encountered four audit scope limitations affecting our ability to fully determine the completeness and accuracy of SANDAG's inventory counts, balance, and asset records. The limitations were:

- **Unreliable Minor Assets Records.** SANDAG does not maintain accurate records of minor assets, including information such as location, quantity, description, owner, or assigned user.
- **No Asset Records for Major Non-IT Assets.** SANDAG does not track major non-IT assets within its asset register.
- **Incomplete and Inaccurate Capital Asset Records.** SANDAG's capital asset records contain significant data integrity, recordkeeping, and process weaknesses.
- **Inadequate Disposal Asset Tracking.** SANDAG's records of disposed assets do not consistently capture sufficient identifying information to support verification of asset removal from inventory systems.

It is important to note that scope limitations and data integrity issues have become a reoccurring issue in OIPA's audits. While scope limitations restrict the work auditors can perform, data integrity issues place a disproportionate burden on auditors to identify which documents are final, complete, and applicable. These conditions also limit the validity and quality of SANDAG's records the Board of Directors (Board) and Management depend upon.

The deficiencies noted in the audit impair operational decision-making, reduce transparency, accuracy and auditability, increase risk of loss, theft and misuse, hinder compliance with federal and state requirements, and weaken SANDAG's ability to effectively plan for asset replacement, maintenance, and long-term capital investment needs. Details of the identified deficiencies can be found within the report and in Appendix B and Appendix C.

To address these deficiencies, OIPA made 16 recommendations. One is for the Board to define its vision for asset stewardship including Management's expected responsibilities and results. SANDAG has agreed or partially agreed to implement all 15 recommendations directed to Management. OIPA's response to Management's response is included at the end of the report in Appendix H.

I would like to thank SANDAG's Management, especially Administration, Accounting and Finance, and Business Information and Technology Services (BITS) staff for their cooperation during this audit and their commitment to implementing the audit recommendations directed to Management. If you have additional questions, please contact me at (619) 595-5323 or courtney.ruby@sandag.org.

Respectfully,

COURTNEY A. RUBY, CPA, CFE
Independent Performance Auditor
Office of the Independent Performance Auditor

Attachments:

1. Audit Report – Performance Audit of SANDAG's Inventory Management of Major and Minor Assets
2. Management's Response and Corrective Action Plan
3. OIPA's Response to Management

SANDAG OIPA | Office of the Independent Performance Auditor

Report Highlights

Background

Inventory management of major and minor assets is important to government entities for several reasons including financial statement accuracy, accountability of public funds, fraud and theft prevention/detection, regulatory and grant compliance, budgeting and capital planning, insurance and risk management, and internal control requirements.

What We Found

- SANDAG has not established a comprehensive, agency-wide asset inventory management framework to govern, manage, track, safeguard, and report assets throughout their lifecycle.
- SANDAG has not established the foundational elements required for an effective asset management system, specifically in the areas of people, technology, and processes.
- SANDAG lacks the internal controls necessary to ensure its major and minor assets are properly managed, accurately recorded and accounted for, and monitored.
- SANDAG's accounting records do not provide a complete and reliable accounting of the Agency's capital assets. Issues were identified with data integrity, record-keeping, and process deficiencies affecting asset valuation, classification, ownership, acquisition and disposal records, depreciation, inventory accountability, and supporting documentation.

Why We Did This Audit

In 2023, OIPA discontinued an audit of SANDAG's inventory management due to significant internal control weaknesses. The current audit was conducted to assess whether those weaknesses were adequately addressed and to evaluate the effectiveness of SANDAG's inventory management processes.

How We Did This Audit

To accomplish the audit's objectives, we:

- Researched laws, regulations, policies and procedures
- Evaluated the data integrity of SANDAG's asset management systems
- Reviewed asset records to assess accuracy and completeness
- Evaluated adequacy and reliability of capital asset records to ensure completeness, accuracy, and proper financial reporting
- Judgmentally selected a sample of assets to verify existence, completeness, and accuracy

Recommendations

We made 16 recommendations to address the inventory management issues identified in the audit.

Our recommendations focus on establishing a comprehensive, agency-wide asset inventory management framework and ensuring capital asset records are complete, accurate and reliable. The highlights include:

For the Board of Directors to:

- Establish policy on asset stewardship, accountability, internal control, lifecycle management, transparency, and reporting requirements

For Management to:

- Establish a formal, enterprise-wide asset management strategy
- Establish formal internal controls to ensure proper authorization, recording, and safeguarding of the Agency's assets
- Establish a comprehensive capital asset governance program
- Establish performance metrics to evaluate the effectiveness of the asset management program
- Establish a centralized asset inventory management system to record and track all major and minor assets throughout their lifecycle
- Immediately consult SANDAG's financial auditors to determine whether the issues identified require correction to SANDAG's current or past financial statements
- Immediately consult with the ERP vendor and SANDAG's financial auditors on the most effective use of the ERP capital asset module and integration with the general ledger to ensure proper use and accurate reporting

Management Response

SANDAG agreed to implement or partially implement all 15 audit recommendations directed to Management.

For Management's Response and Corrective Action Plan, see Appendix G.

Board of Director Response

The report includes a recommendation for the Board's consideration.

Focus on Timely Results

To assist with timely implementation, a Recommendation Implementation Timeline Matrix categorizing each recommendation by urgency and risk is included in this report.

OIPA's Purpose

California Assembly Bill 805 (AB 805) created the IPA position in January 2018. OIPA, under the direction of the IPA, serves as the SANDAG Board of Directors' independent oversight function to objectively evaluate and recommend improvements to SANDAG's operations.

Table of Contents

INTRODUCTION

WHAT IS SANDAG

The San Diego Association of Governments (SANDAG or Agency) plans and builds infrastructure, preserves the environment, provides resources to the San Diego region, and delivers the TransNet Program.

SANDAG serves the region through several designations. In its primary roles as the Metropolitan Planning Organization (MPO) and Regional Transportation Planning Agency (RTPA), SANDAG is responsible for developing plans for how people and goods will move around the region.

Beyond planning, SANDAG is unique among MPOs in that it also designs and builds many of its projects. SANDAG works to offset environmental impact and ensure sustainability by preserving land and investing in cleaner transportation options. SANDAG's work also provides vital resources such as data, transportation programs, and management of roadway operations.

TransNet is a regional voter approved half-cent sales tax administered by SANDAG to help fund everything from major highway, rail, and bikeway projects to specialized transportation and local street improvements.

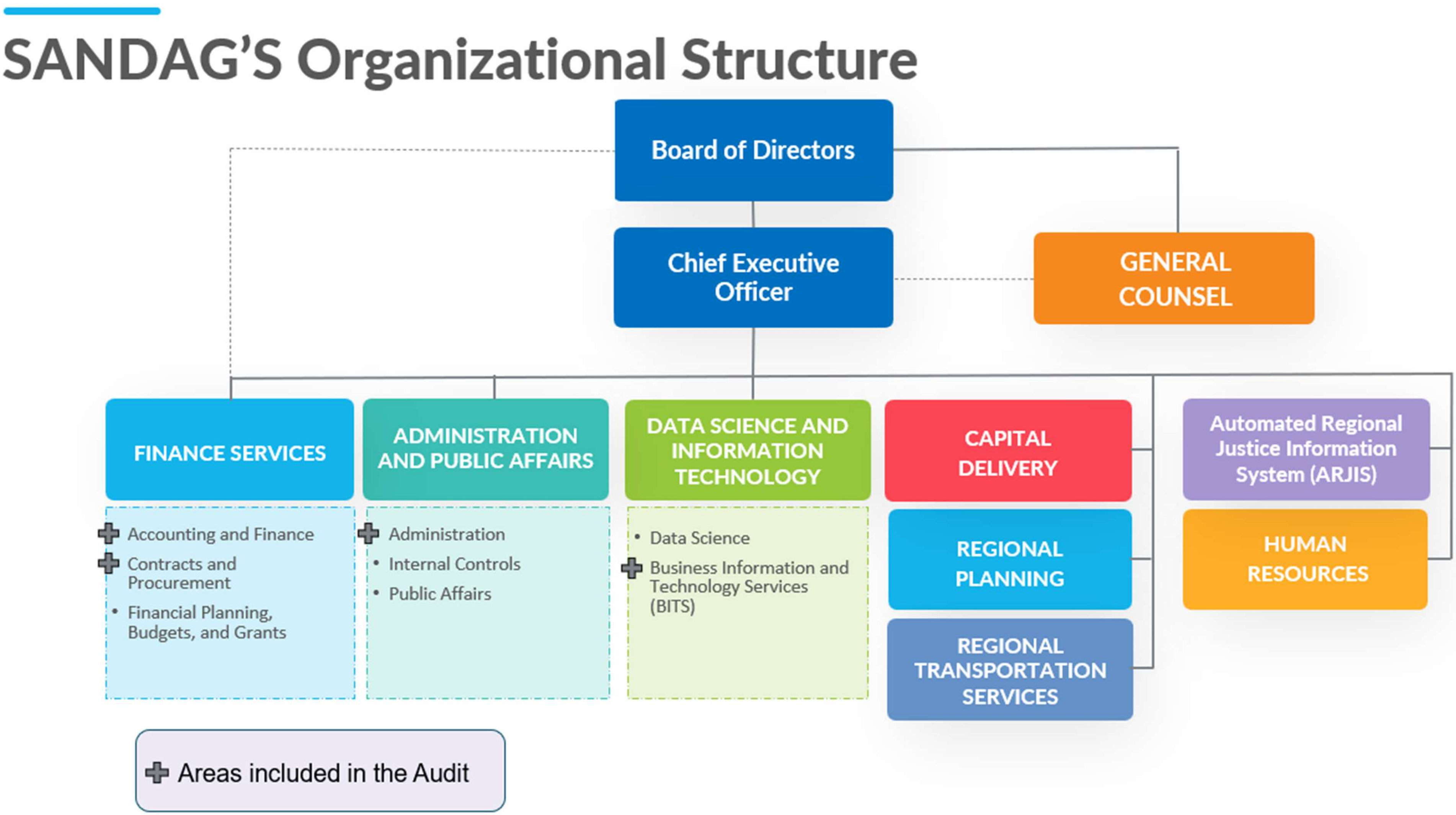
SANDAG is governed by a Board of Directors (Board) made up of elected officials from each of the region's 18 cities and the County of San Diego. Collaborating with these voting members are advisory representatives from:

- Imperial County
- U.S. Department of Defense
- California Department of Transportation (Caltrans)
- 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
- Mexico

For fiscal year 2026-27, SANDAG's program budget is $1.46 billion.[1] Figure 1 on the following page illustrates the Agency's operational and support functions that enable it to carry out its mission, and denotes areas included in the audit.

[1] SANDAG's budget includes $800.8M for the capital program, $181.1M for the TransNet to Major Corridor, $76.9M for the Overall Work Program, $87.5M for the management of ongoing regional operational programs and services, and $246M to be passed through to local agencies.

Figure 1



Source: SANDAG Organizational Chart

CAPITAL ASSETS INCLUDED IN THE AUDIT

In SANDAG's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2025, SANDAG reported total depreciated capital assets[2] of $82.6 million for Governmental Activities, $255.0 million for Business-type Activities, and $638,255 for the Automated Regional Justice Information System (ARJIS), a discretely presented component unit[3].

The capital asset areas included in the audit scope are denoted in yellow in Figure 2 below.

Figure 2

Capital Assets

Governmental, Business-type, and ARJIS

	Primary Government		Component Units
Capital Assets, being depreciated	**Governmental Activities**	**Business-type Activities**	**ARJIS**
Infrastructure	$ -	$ -	$ -
Office equipment	$ 2,400,020	$ 327,364	
Office equipment & furniture	$ -	$ -	$ 168,553
Computer equipment	$ 18,325,408	$ 1,249,407	$ 940,043
Internally generated computer software	$ -	$ -	$ 10,363,508
Equipment and Other	$ 1,721,444	$ -	$ -
Vehicles	$ 9,013,947	$ 783,901	$ -
Fixed operating equipment	$ -	$ 255,385	$ -
Leasehold improvements	$ 204,729	$ 107,783	$ -
Software	$ -	$ 221,450	$ -
Toll Road	$ -	$ 409,701,728	$ -
Roadway service & toll system	$ -	$ 18,511,152	$ -
Back office system	$ -	$ 155,253	$ -
Buildings	$ 1,437,719	$ 4,020,000	$ -
Electric toll collection system	$ -	$ 18,432,478	$ -
Right -to-use lease asset	$ -	$ 6,836	$ -
Right-to-use leased vehicles	$ 60,092	$ -	$ -
Right-to-use leased buildings	$ 62,752,727	$ -	$ -
Subscription right-to-use assets	$ 6,284,967	$ 1,697,311	$ 595,097
Land improvements	$ 122,295	$ -	$ -
Total capital assets, being depreciated	$ 102,323,348	$ 455,470,048	$ 12,067,201
Total accumulated depreciation	$ (19,715,359)	$ (200,482,705)	$ (11,428,946)
Total capital assets, being depreciated, net	**$ 82,607,989**	**$ 254,987,343**	**$ 638,255**

Source: SANDAG Annual Comprehensive Financial Report for the fiscal year ended June 30, 2025

[2] Capital assets are long-term assets used in operations that provide benefits over multiple years and are capitalized rather than expensed.
[3] Discretely presented component units are legal separate distinct organizations whose financial data is included in a primary government's financial reports.

WHY WE PERFORMED THIS AUDIT

In 2023, OIPA initiated an audit of SANDAG's inventory management to ensure the public resources managed by SANDAG are properly accounted for, protected, and used appropriately. However, OIPA discontinued the audit due to significant internal control[4] weaknesses requiring immediate management action. In response, Management developed a corrective action plan (CAP) with implementation targeted for completion by March 2025.

Planned actions included procuring professional consultant services to assist with the design and implementation of inventory controls, identifying departmental assets, establishing a centralized asset management system, and integrating asset inventory modules into SANDAG's financial system. Management also planned to fully establish the asset management programs, tools, policies, and procedures across all departments.

This audit was conducted to assess whether those control weaknesses were adequately addressed and to evaluate the effectiveness of SANDAG's inventory management processes.

[4] Internal controls are the policies, procedures, and practices put in place by an organization to safeguard assets, ensure accurate financial reporting, promote operational efficiency, and maintain compliance with laws and regulations.

BACKGROUND – INSIDE THE INVENTORY SYSTEM

PURPOSE OF THE INVENTORY MANAGEMENT SYSTEM

Inventory management of major and minor assets is important to government entities for several reasons including:

- **Financial statement accuracy**
  Major assets and some minor assets are recorded on the balance sheet[5] and depreciated[6] over time. Inaccurate inventory records lead to misstated asset values, incorrect depreciation expense, and potential material misstatements in the financial statements, which can result in audit findings or even a qualified/adverse audit opinion.

- **Accountability for public funds**
  Government assets are purchased with taxpayer dollars. Robust inventory tracking demonstrates that public resources are being safeguarded and used appropriately, which is central to public trust and government accountability.

- **Fraud and theft prevention/detection**
  Without regular physical inventory counts and reconciliation to accounting records, missing or misappropriated assets (especially smaller, high-risk "minor" items like laptops, tablets, tools) can go undetected for long periods.

- **Regulatory and grant compliance**
  Many federal and state grants require specific asset management and reporting standards (e.g., Uniform Guidance/2 CFR 200 for federally funded assets). Poor inventory controls can jeopardize grant funding or trigger findings in a Single Audit.

- **Budgeting and capital planning**
  Knowing what assets exist, their condition, and remaining useful life helps management plan for replacement, maintenance, and capital budgeting, and avoid both premature disposal and unexpected failures of critical equipment.

- **Insurance and risk management**
  Accurate asset records are essential for obtaining appropriate insurance coverage and substantiating claims in the event of loss, theft, or damage.

- **Internal control requirements**
  Asset inventory controls are a standard component of the internal control framework (e.g., COSO) that auditors evaluate. Deficiencies here often signal broader weaknesses in the control environment, which can lead to expanded audit scope or additional findings elsewhere.

---

[5] A balance sheet is a financial statement that reports an organization's assets, liabilities, and equity at a specific point in time, showing the organization's financial position.
[6] Depreciation is the systematic allocation of a capital asset's cost over its estimated useful life.

ASSET MANAGEMENT STANDARDS, POLICIES, RULES AND BEST PRACTICES

SANDAG, along with other public agencies, has a clear responsibility to demonstrate stewardship over both major and minor assets purchased with public funds. Relevant authorities include GASB Statement 34, which governs capital asset and depreciation reporting for public agencies, and SANDAG's own board-adopted policies. As stated above, many federal and state grants also impose their own asset management and reporting requirements — for example, the Uniform Guidance (2 CFR Part 200) for federally funded assets.

Beyond these accounting, funding and policy requirements, sound asset management calls for applying recognized best practices, such as those published by the Government Finance Officers Association (GFOA), the Institute of Asset Management (IAM), and the International Organization for Standardization (ISO) 55000 series to ensure assets are tracked, maintained, and reported consistently over their full lifecycle.

SANDAG Board policies 041, 028, and 015 establish expectations for SANDAG to maintain effective internal controls, asset management, and record-keeping practices.

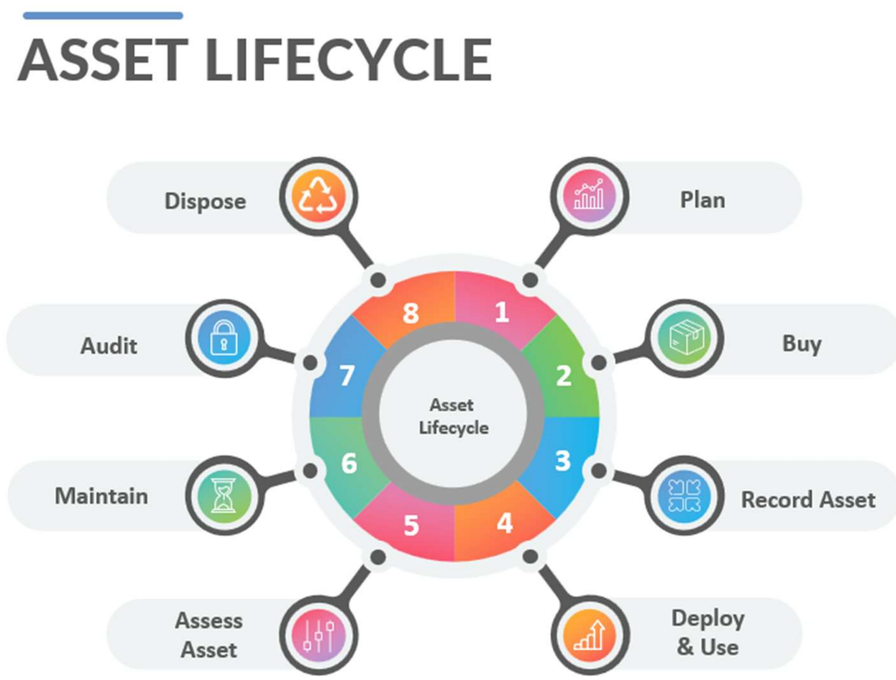
- *Board Policy 041* establishes SANDAG's internal controls standards.
- *Board Policy 028* outlines the Board's expectations for asset ownership and disposition.
- *Board Policy 015* outlines expectations for record management, including safekeeping of records and ease of access to records for employees and public in accordance with laws and regulations.

SANDAG also maintains internal policies and procedures governing the management of major and minor assets, including property tracking systems, asset tagging, physical inventory counts, reconciliation, and financial reporting.

THE LIFECYCLE OF AN ASSET

Asset lifecycle management covers the stages an asset goes through from planning through disposal. Figure 3 on the following page illustrates each step in this process, including acquisition, use, maintenance, and disposal, to show how assets are tracked and managed over time within the inventory system.

Figure 3

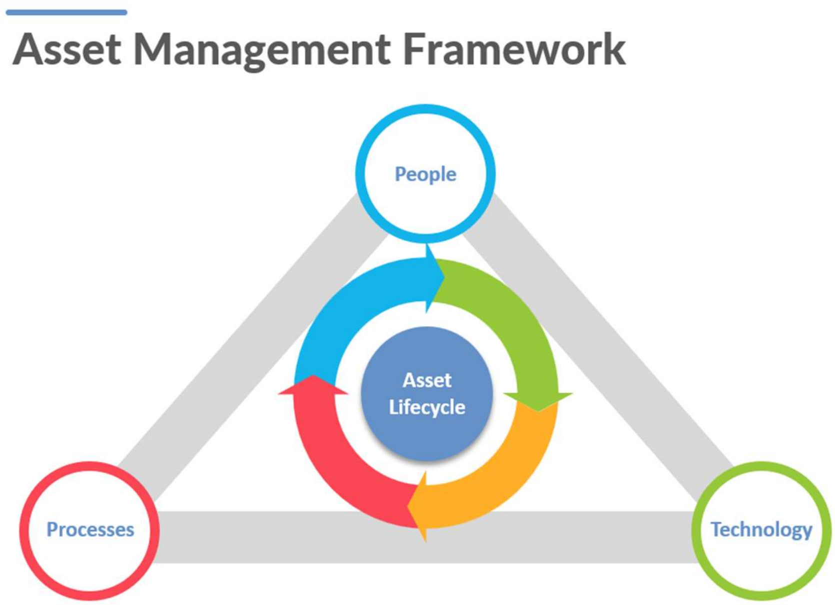


Source: OIPA generated

HOW ORGANIZATIONS ACHIEVE EFFECTIVE ASSET MANAGEMENT

Effective asset management is supported by three key components: people, technology, and processes (shown in Figure 4 on the next page). Each component is needed because they work together to ensure asset management is consistently executed, accurately controlled, and reliably supported across the organization.

Figure 4



Source: OIPA generated

People define accountability and make decisions to ensure assets are effectively planned, used, maintained, and reported.

Technology, including systems and applications, enables accurate purchasing, monitoring, and reporting of assets to support operational efficiencies.

Processes provide structured workflows, policies, and governance that guide a consistent and compliant asset management program.

EXPECTED INVENTORY MANAGEMENT PROCESSES

On the following page, Table 1 outlines the key activities performed to govern, use, manage, and report on assets during the asset lifecycle. This model clarifies accountability and highlights the controls expected for effective asset management.

Table 1

4-Layer Internal Control Model for Asset Inventory

Lifecycle Phase	Process	1 – Set Asset Strategy	2 - Use Assets	3 - Manage Inventory	4 - Financial Reports
	Plan	**Define** asset strategy, policies, standards, risk appetite, and funding priorities	**Define** asset needs and lifecycle requirements	**Define** inventory control and tracking requirements	**Define** financial reporting requirements for assets
	Buy	**Approve** capital budgets and procurement controls	**Buy or build** assets	**Capture** procurement and asset reference data	**Enforce** purchase matching and financial controls
	Record	**Define** classification and system of record standards	**Validate and accept** assets into use	**Tag and record** asset into inventory system	**Establish** financial record and asset valuation
	Deploy	**Define** deployment standards and controls	**Place** asset into operational use	**Assign** location, custodian, and **update** records	**Capitalize** asset and **begin** useful life tracking
	Use	**Define** usage and accountability policy	**Operate** asset in daily activities	**Maintain** location and movement records	**Record** depreciation or amortization
	Assess	**Define** performance and replacement criteria	**Evaluate** performance and replacement needs	**Validate** condition and use	**Record** impairments or write-downs
	Maintain	**Define** maintenance strategy and service expectations	**Request** maintenance	**Maintain** asset and **update** maintenance records	**Record** repairs and improvement. **Reconcile** to inventory records
	Audit	**Require** audits and compliance reviews	**Support** asset verification	**Conduct** physical inventory checks and **record** asset condition	**Reconcile** independent verification of accuracy and completeness of general ledger
	Dispose	**Define** disposal and risk requirements	**Replace or retire** assets	**Remove** asset from inventory and **confirm** physical disposal	**Record** disposal and gain/loss, and **clear** accumulated depreciation

Source: OIPA generated

DEFINING MAJOR AND MINOR ASSETS

Major assets are long-term resources that support Agency operations for more than one year. Examples include buildings, vehicles, infrastructure, computer servers, firewalls, hardware, and other equipment. Major assets generally have an acquisition cost of **more than $5,000**, including any costs required to place the asset into service, such as installation.

Minor assets are resources that generally cost **less than $5,000**. Examples include small equipment, portable tools, and other low-cost items used in the Agency's operations.

CAPITALIZING, DEPRECIATION, AND EXPENSING

The Agency's capitalization policy requires that each time an asset (major or minor) is purchased, SANDAG evaluates whether it meets the capitalization policy to determine if it should be capitalized or expensed (see Figure 5 on the following page for the asset classification decision tree).

Capitalizing an asset means recording the asset's cost on the Agency's balance sheet rather than recognizing the entire cost as an expense when purchased. The cost is then recognized over the asset's useful life[7] through depreciation.

Depreciation is the systematic allocation of a capital asset's cost over its estimated useful life. This approach matches the cost of the asset to the periods that benefit from its use. For example, a vehicle purchased for $50,000 with an estimated useful life of 10 years would mean $5,000 of the cost would be expensed as depreciation each year for 10 years.

Expensing an asset means recording the full cost of the asset as an expense in the period it is purchased rather than spreading the cost over multiple years. For example, the entire cost of a $1,500 conference table would be expensed in the year it is purchased.

CAPITAL ASSETS

Assets are generally capitalized when they:

- Have an acquisition cost exceeding $5,000, including installation and other costs necessary to place the asset into service; and
- Have an estimated useful life of more than one year.

The cost of normal maintenance and repairs which do not add to the value of the asset or materially extend the asset's life are expensed.

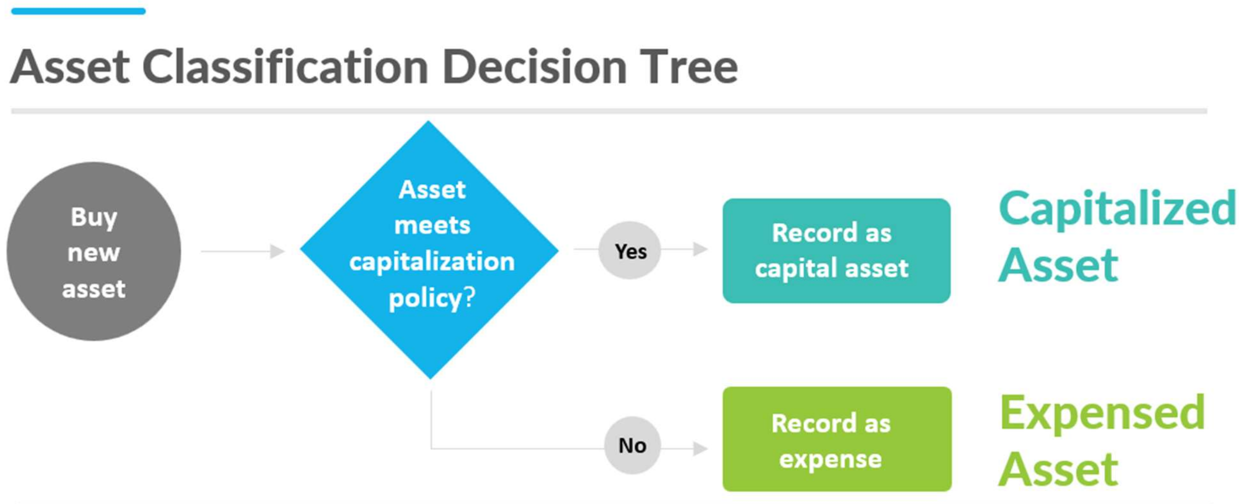
---

[7] Useful life is the estimated period an asset is expected to be used or provide service to an organization.

All major assets are capitalized, and most minor assets are expensed. Minor assets are evaluated on a case-by-case basis and may be either capitalized or expensed, depending on their cost, quantity purchased, useful life, and other relevant capitalization criteria.

Organizations may capitalize a group of similar minor assets when they are acquired as part of a significant purchase and managed collectively. For example, a large purchase of computers may be recorded as a capital asset group and depreciated over the expected useful life of the equipment rather than expensed immediately. This approach allows the Agency to more accurately match costs with the periods benefiting from the assets' use.

Figure 5



Source: SANDAG Fixed Asset Procurement Procedures Policy

ASSET RECORDS

Asset records must be properly recorded and maintained to ensure complete and accurate reporting for both operational and financial reporting purposes. Assets are generally recorded as follows:

Asset Register is a structured record-keeping system/operational database used to manage the daily lifecycle of all major and minor assets. Major assets and minor low-value "theft-sensitive" operational assets should be tracked with a single record for each asset with the following information:

- Description, class, quantity, model
- Serial number, tag number, parcel number
- Location, room, department, custodian
- Acquisition method, date, cost, PO, vendor
- Date of service, improvement, insurance, maintenance records
- Transfer, adjustment, retirement history

For low-value, consumable items like keyboards, printer ink, or office chairs, organizations usually group, track, and manage the assets as a single record with the total quantity and location. Organizations may choose to categorize assets by technology or maintain separate lists for technology/non-technology (e.g., computers/desks) and tangible/intangible (e.g., tables/software).

Capital Asset Register (CAR) is a specialized, financial focused subset of an asset register used exclusively for tracking assets for financial reporting purposes.

Enterprise Resource Planning (ERP) system refers to an integrated business system that serves as the system of record for financial accounting including the CAR and general ledger. The general ledger is a master record of an organization's financial transactions and is used to produce financial statements.

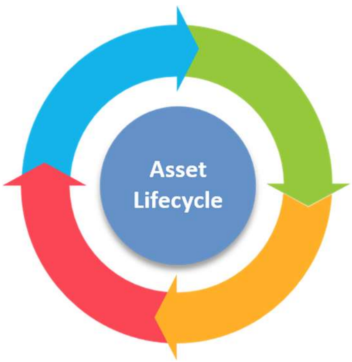
Figure 6 below illustrates the flow of assets from the asset register to the general ledger in the Agency's ERP system.

Figure 6

Source: OIPA generated

FINDINGS AND RECOMMENDATIONS

FINDING 1 – THE ABSENCE OF AN ESTABLISHED INVENTORY MANAGEMENT SYSTEM PREVENTS SANDAG FROM ACCURATELY IDENTIFYING AND ADEQUATELY SAFEGUARDING ITS MAJOR AND MINOR ASSETS



Responsibility to Establish and Maintain an Inventory and Asset Management System

As a steward of public funds, SANDAG is responsible for establishing and maintaining a comprehensive inventory and asset management system that ensures effective stewardship, safeguarding, accountability, tracking, utilization, maintenance, reporting, and disposition of organizational assets throughout their lifecycle.

This responsibility includes implementing governance structures, policies, procedures, internal controls, inventory records, reconciliation processes, condition assessments, monitoring activities, and reporting mechanisms necessary to maintain accurate and reliable asset information, support operational and financial decision-making, ensure compliance with applicable laws and regulations, produce accurate and complete financial reports, prevent loss or misuse of assets, and promote transparency, accuracy, auditability, and efficient use of public resources.

Management Did Not Resolve Known Shortfalls in the Inventory Management System

Management was made aware of the severity of shortcomings in its inventory management system in 2023 after OIPA suspended an audit of SANDAG's major and minor asset inventory because there was insufficient framework to ensure assets were accounted for and safeguarded.

At the time, Management committed to implementing a comprehensive inventory management system, including the creation and implementation of policies, procedures, systems, and resources to support effective asset management and inventory. Management planned to fully establish the asset management program, software tools, and policies and procedures across relevant departments by March 30, 2025.

OIPA's review found Management implemented or partially implemented three (3) of the six (6) planned actions to establish an inventory management system[8].

[8] For planned actions and status, see Appendix D – Status of Management's Planned Actions to Resolve Known Deficiencies in the Agency's Asset Inventory Program.

For the first planned action, SANDAG prepared and executed a contract amendment to add Capital Asset and Inventory modules to its ERP system. According to Management, SANDAG had included the Capital Asset Module in the purchase of the ERP system. The amendment would have acquired the Inventory Module. The amendment was cancelled in September 2025 after SANDAG decided to use Freshservice as its inventory tracking system instead. However, SANDAG only uses Freshservice to track Information Technology (IT) assets.

As part of another planned action, SANDAG prepared a Request for Proposal (RFP) for professional consultant services to assist with the design and implementation of its asset management and inventory control systems. In May 2024, SANDAG contracted with Dynamic Space Solutions to help SANDAG develop its asset management system, including creating an overall asset strategy, identifying maintenance strategies to optimize asset performance and extend asset lifecycle, classifying and managing risks associated with asset management, conducting a comprehensive inventory of all assets within the organization, establishing reporting mechanisms to monitor asset usage and maintenance history, and developing performance metrics. The work was to be completed in 14 months.

According to the consultant, the initial meeting schedule was delayed because of leadership changes and staff availability, and then in April 2025, SANDAG informed them that there was no budget for the project. In total, SANDAG spent $4,580 of $79,000 on the contract, and SANDAG did not complete any planned initiatives.

Asset Inventory Management Is Focused on Financial Reporting Rather Than Asset Stewardship

The Agency's asset inventory management process appears to be designed primarily to support financial reporting requirements, specifically the identification, tracking, and reporting of capital assets for inclusion in the Agency's financial statements. Limited processes exist to account for, track, and safeguard other assets in the Agency.

As a result, the Agency's approach to asset management is largely reactive to financial reporting requirements rather than proactive in ensuring effective stewardship of Agency resources. The Agency has not established a comprehensive asset management framework that emphasizes inventory accountability, asset safeguarding, and ongoing monitoring of assets regardless of capitalization status.

Agency's Asset Register Maintained Across Different Departments and Systems

SANDAG's asset registers do not provide a complete representation of all assets.

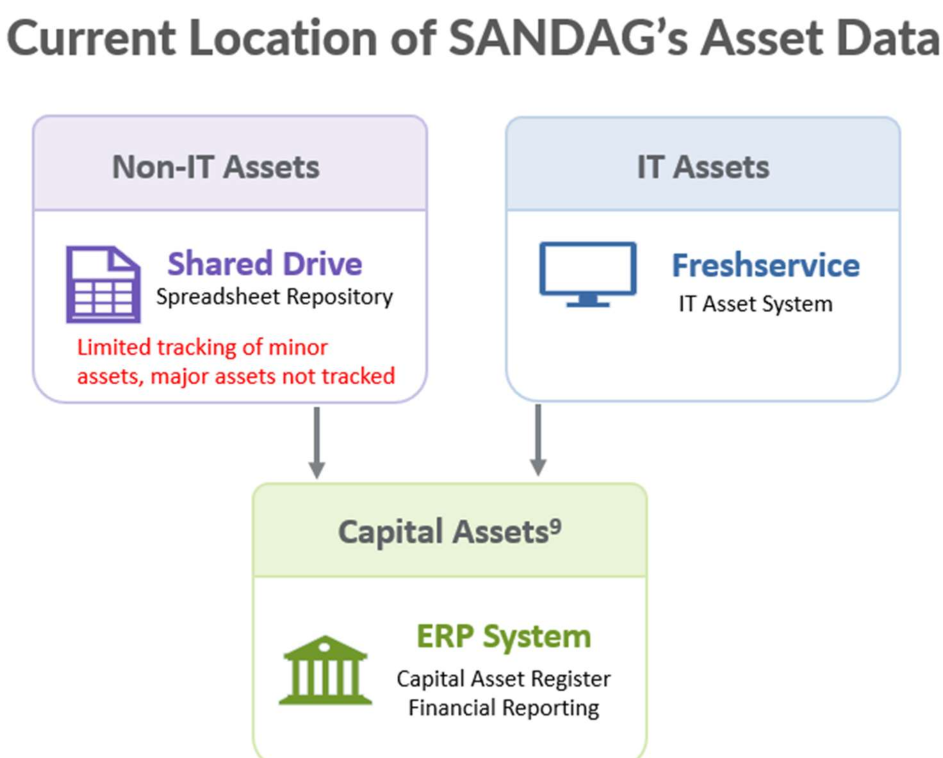
As illustrated in Figure 7 below, the Agency's asset registers are maintained by two separate departments using different systems and all the necessary information is not captured.

The Administration department (Administration) maintains the asset register for non-IT minor assets in a Microsoft Excel spreadsheet, which is stored in the Agency's shared drive. However, Administration does not include records for the Agency's non-IT major assets.

Business Information and Technology Services (BITS) maintains the register for both IT major and IT minor assets using Freshservice.

The Accounting and Finance department (Accounting and Finance) maintains a specialized, financial focused subset of an asset register, known as the CAR, used exclusively for tracking assets for financial reporting purposes.

Figure 7



Source: OIPA generated

[9] Accounting and Finance determines if assets meet the capitalization policy before adding the asset to the CAR.

Incomplete and Unreliable Asset Records

SANDAG's asset registers do not provide current and accurate representation of all major and minor assets.[10]

The asset register for tracking **non-IT minor assets** is organized by physical office location such as room number rather than by asset type, preventing the Agency from tracking and safeguarding assets by type, quantity, department, user, etc., and verifying inventory completeness. Also, the records are outdated, incomplete, and inaccurate.

The asset register for tracking **IT major and minor assets** in Freshservice omits key information necessary for effective asset management and accountability, including the manufacturer, model, serial number, type, responsible department, asset status, and disposal information. OIPA found key data fields (e.g., description, department and location) are not required, resulting in multiple records having blank fields. The asset records are also outdated, incomplete, and inaccurate.

OIPA could not verify the completeness and accuracy of the Agency's asset register, resulting in a scope limitation[11] (see Appendix A).

Absence of a Comprehensive Asset Inventory Management Program Results in Unreliable Asset Records

The absence of reliable asset records stems mainly from the absence of a comprehensive inventory management system – an entire framework used to govern, manage, track, safeguard, and report assets throughout their lifecycle to ensure assets are properly identified, tracked, safeguarded, and recorded. OIPA noted the following:

Board Policy Only Partially Covers Asset Governance Expectations

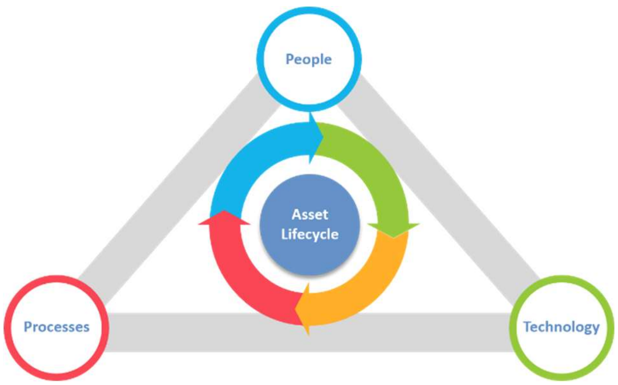
OIPA's review found SANDAG's Board established *Board Policy 028*. The policy only partially addresses the Board's expectations regarding how SANDAG's assets should be governed. The Board policy is overly prescriptive regarding the asset disposal process and does not sufficiently define its expectations for asset stewardship, including the outcomes Management is expected to achieve.

---

[10] Specific data integrity errors are included in Appendix B – Finding 1: Detailed Listing of Additional Data Integrity and Asset Lifecycle Deficiencies.

[11] A scope limitation occurs when an auditor cannot gather enough evidence or perform testing of the area under review.

SANDAG Has Not Established an Executive-Level Asset Strategy

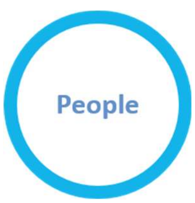


Executive Management should address how the organization will achieve the expected outcomes through the development of a comprehensive asset lifecycle strategy.

From a strategic perspective, SANDAG has not established the foundational elements required for an effective asset management system, specifically in the areas of people, technology, and processes.

Effective asset management relies on the integration of these three components to ensure assets are consistently identified, tracked, safeguarded, and reported across the organization.

Without these three components operating together as an integrated system, SANDAG does not have the strategic infrastructure needed to support effective and reliable asset management. OIPA noted the following:



<u>No Clear Accountability for Internal Controls Over Assets</u>

People provide the accountability and decision-making necessary to ensure assets are properly planned, used, maintained, and reported.

OIPA found the Chief Executive Officer (CEO) has not defined or delegated the responsibilities for managing key aspects of the asset inventory lifecycle to departments within the Agency. As a result, Accounting and Finance, Administration, Contracts and Procurement, and BITS have developed and managed asset-related activities independently.

As such, the asset inventory process is not fully coordinated throughout the Agency, segregation of duties has not been clearly established, and responsibility for maintaining and updating the Agency's asset register remains undefined. Examples include:

- Responsibility for the use and stewardship of Agency assets has not been assigned or communicated to department heads.
- Responsibility for the safeguarding and appropriate use of assets has not been communicated to all employees.
- Responsibility for tagging, maintaining, and verifying the condition of assets has not been assigned, and the system of record for maintaining these assets has not been established.

- Administration does not track, manage, or perform inventories of the Agency’s non-IT major assets.

- Accounting and Finance has facilitated a biannual physical inventory of the Agency’s major (capital) assets to validate the CAR. However, deficiencies in the design of the physical inventory process rendered it ineffective; in addition, this responsibility is not appropriately aligned with Accounting and Finance’s function.

- There is no requirement for departments to notify Accounting and Finance when assets are received for inclusion in the CAR, or when it is placed in service to initiate depreciation. Currently, the Contracts and Procurement department maintains a Fixed Asset Acquisition Log; however, this responsibility is not appropriately aligned with their business function.

- BITS currently manages and disposes of computer equipment. However, during the office relocation, Administration disposed of IT assets (e.g., printers) without the involvement of BITS.

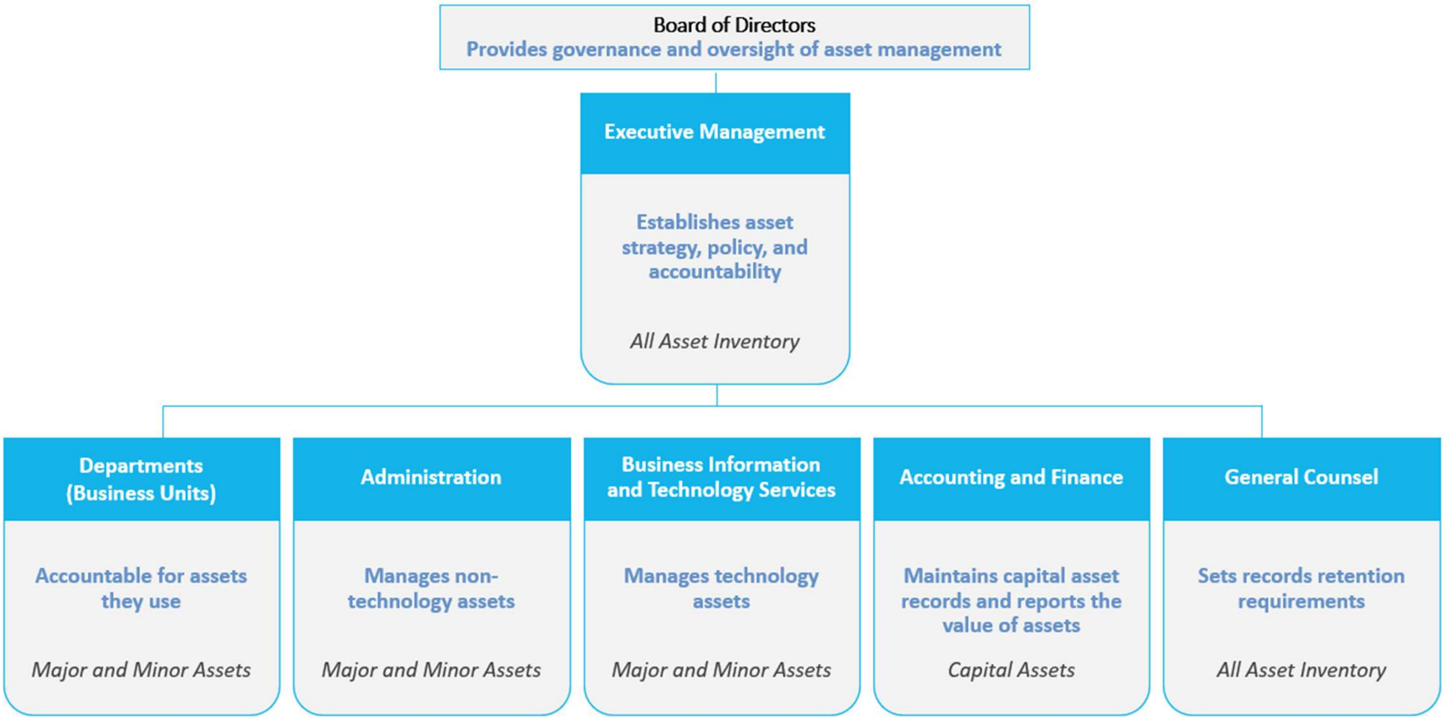
Effective internal control over assets requires clearly defined governance, accountability, and segregation of duties across the Agency. Responsibility for asset management should be distributed among functional areas to ensure that asset acquisition, recording, custody, inventory, maintenance, disposal, and financial reporting are performed by separate individuals or departments, with appropriate oversight and monitoring.

Clearly assigning ownership for each stage of the asset lifecycle helps ensure that assets are properly authorized, accurately recorded, physically safeguarded, periodically verified, and disposed of in accordance with established policies and applicable requirements.

Based on OIPA’s assessment of the Agency’s organizational structure, Figure 8 on the following page illustrates the functional areas we would expect to own responsibility for key asset management activities and demonstrates how these responsibilities should be segregated to establish an effective system of internal control over SANDAG's assets.

Figure 8

Accountability for Asset Inventory



Source: OIPA generated

1. **Board of Directors** sets expectations for stewardship of assets and protects public interests.

2. **Executive Management** sets the overall direction, strategy, and priorities for how assets are managed across the organization.

3. **Departments** (business units) identify their operational needs and are responsible for the day-to-day use of assets to support their functions.

4. **Administration** manages and maintains non-IT physical assets to ensure they remain in proper working condition. Administration is a division of the Administration and Public Affairs group.

5. **BITS** manages and maintains technology-related assets, including hardware, software, and related systems. BITS is a division within the Data Science and Information Technology group.

6. **Accounting and Finance** maintains the official financial records of assets and is responsible for ensuring accurate valuation,

capitalization, depreciation, and reporting in the financial statements. Accounting and Finance is a division under Finance Services.

7. **General Counsel** sets and maintains record retention requirements to ensure compliance with laws, regulations, policy, and best practices.

Technology

Inefficient Use of Asset Inventory Systems

Technology, including systems and applications, supports accurate purchasing, tracking, monitoring, and reporting of assets, enabling greater efficiency and data reliability.

SANDAG is not effectively utilizing technology to track and manage its asset inventory. Asset management is fragmented across multiple tools and approaches, resulting in inconsistent and unreliable records. Only BITS maintains a dedicated asset management system, Freshservice, to track SANDAG's major and minor IT assets. Appropriate user access controls have not been established for Freshservice, limiting the system's effectiveness as a controlled system of record.

In addition, Administration relies on Excel spreadsheets to track non-IT minor assets and non-IT major assets are not tracked. Given the volume and complexity of the minor assets being managed, Excel is not an efficient or effective tool for maintaining a comprehensive inventory. The spreadsheets are not structured or standardized to capture key information, such as location, ownership, condition, or status, and the spreadsheets lack basic data integrity safeguards, including audit trails and access controls. As a result, data quality and completeness cannot be assured.

An integrated, comprehensive, and accessible technology solution has not been implemented, limiting consistent tracking, reporting, and oversight of SANDAG's assets.

Processes

There Is Limited Policy Direction Regarding How Asset Management Lifecycle Activities Should Be Performed

SANDAG has not established sufficient policy direction for how asset management activities should be performed across the Agency, including defined workflows between departments and requirements for asset acquisition, inventory management, use of assets, and financial reporting.

Without clear and comprehensive policy direction across all key stages of the asset lifecycle – from planning to disposal – SANDAG has been unable to establish a complete and consistent framework of processes and controls for managing its assets.

As a result, departments independently developed and implemented asset management practices leading to inconsistent approaches across the enterprise, as evidenced by the variations of departmental policies, procedures, data, and forms. It also resulted in gaps in the Agency-wide processes for managing assets. Examples include:

- There is no established process for departments to:
    - be provided with information on the major and minor assets under their control, and
    - participate in a physical inventory to ensure the information is complete and accurate.
- There are numerous examples of missing or insufficient guidance on how to perform inventory management and capital asset reporting processes[12].
- SANDAG has not adequately segregated responsibilities for asset custody and validation from those for financial reporting and reconciliation. Accounting and Finance oversees the physical inventory of capital assets every two years, even though its role is to maintain the accuracy of the Agency's financial records. Responsibility for conducting and overseeing physical asset inventories should reside with the departments responsible for managing asset inventory and supported by departments that use the assets. Accounting and Finance should receive the inventory results in order to reconcile their financial records to the physical inventory, rather than perform or oversee the physical inventory process.
- Accounting and Finance only adds and disposes of assets on the CAR one time per year rather than when they occur or quarterly as is best practice. In addition, supporting documentation for these additions and disposals was not consistently obtained, and documentation that was maintained was not always sufficient to support the transactions as required. SANDAG has not established a method to inform Accounting and Finance when a new asset is acquired.

[12] Specific asset lifecycle errors are included in Appendix B – Finding 1: Detailed Listing of Additional Data Integrity and Asset Lifecycle Deficiencies.

Without a comprehensive inventory and asset management system, there is significant risk of asset loss, theft, misuse, unauthorized disposition, inaccurate financial reporting, and inefficient use of public resources.

The absence of clearly defined governance, accountability, policies, standardized processes, and reliable systems prevents Management from maintaining complete and accurate asset records or ensuring assets are consistently identified, tracked, safeguarded, maintained, and reported throughout their lifecycle.

As a result, SANDAG does not have assurance that assets exist, are properly assigned and utilized, are maintained in a state of good repair, or are accurately reflected in financial and operational records. These deficiencies impair operational decision-making, reduce transparency, accuracy, and auditability, hinder compliance with federal and state requirements, and weaken SANDAG's ability to effectively plan for asset replacement, maintenance, and long-term capital investment needs.

SUMMARY

The deficiencies identified appear to result from the absence of an enterprise-wide capital asset management framework that defines asset ownership, establishes consistent recording requirements, aligns policies and system configuration, and provides ongoing validation of capital asset information. The Agency's current process emphasizes financial reporting compliance but does not provide sufficient controls to ensure capital assets are accurately recorded, tracked, safeguarded, valued, and reported for financial, insurance, and operational purposes.

RECOMMENDATIONS

The Board should:

1. Establish Board-level policy expectations focused on asset stewardship, accountability, internal control, lifecycle management, transparency, and reporting requirements.

The Chief Executive Officer (CEO) should:

2. Appoint a senior level executive who is responsible for administering the Agency's asset inventory management program, including setting strategy and expectations, monitoring compliance, and designating official system(s) of record.

The appointed senior level executive (see recommendation 2) should:

3. Establish a formal enterprise-wide asset management strategy, approved by the CEO, defining organizational objectives, governance expectations, stewardship responsibilities, and lifecycle management requirements for all major and minor assets.

4. Establish and document the roles and responsibilities and expected workflow between functions responsible for the governing, strategy, use, management, and financial reporting of the Agency's major and minor assets.

5. Establish formal internal control activities designed to ensure assets are properly authorized, recorded, safeguarded, periodically verified, and disposed of in accordance with applicable requirements, including:

   - formal supervisory review and approval processes for asset acquisitions, transfers, disposals, write-offs, and inventory adjustments.

   - periodic physical inventories of all major assets and risk-based inventories of minor assets.

6. Develop a plan to oversee and coordinate the implementation of comprehensive policies and procedures governing all stages of the asset lifecycle, including:

   - planning, including performance targets and investment prioritization
   - acquisition
   - tagging and recording
   - assignment and use
   - capitalization and classification
   - transfers and movement
   - maintenance and condition assessments
   - inventories and reconciliations

- impairment and replacement
- surplus management and disposal
- monitoring and reporting requirements
- record retention

7. Establish performance metrics and monitoring processes to evaluate the effectiveness of the asset management program, including inventory accuracy, asset utilization, maintenance compliance, and replacement planning.

8. Define asset register data requirements that must be captured in SANDAG's asset register and in the CAR within the ERP system (e.g., financial, procurement, maintenance, and inventory), including:

   - asset identification and tagging
   - ownership and custody
   - location tracking
   - condition and maintenance history
   - lifecycle status
   - depreciation and financial data
   - asset disposal information

9. Establish a centralized asset inventory management system to record and track all major and minor assets throughout their lifecycle. This includes evaluating current systems to determine whether they can meet SANDAG's requirements for maintaining a complete and centralized asset inventory management system.

10. Coordinate with departments to update the asset register to include accurate and complete records of all major and minor assets.

11. Ensure departments have appropriate access to asset records to enable them to effectively track and manage assets assigned to their areas of responsibility.

12. Work with BITS to implement appropriate user access controls, segregation of duties, audit logging, and data governance controls within asset management systems to ensure the integrity and reliability of asset data.

FINDING 2 – INSUFFICIENT CAPITAL ASSET PROCESS RESULTED IN INACCURATE AND INCOMPLETE FINANCIAL RECORDS

SANDAG's accounting records do not provide a complete and reliable account of the Agency's capital assets.[13] OIPA identified data integrity, record-keeping, and process deficiencies affecting asset valuation, classification, ownership, acquisition and disposal records, depreciation, inventory accountability, and supporting documentation.

Requirements for Complete and Reliable Capital Asset Records

Capital asset records should provide a complete audit trail supporting asset acquisition, valuation, depreciation, ownership, inventory accountability, and disposal activities.

SANDAG *Board Policy 041* states that Management is responsible for establishing and maintaining effective internal controls to ensure that financial information is complete, accurate, supported by sufficient documentation, and capable of withstanding independent audit scrutiny.

ERP Capital Asset Module Not Used for Intended Purpose

The CAR is a specialized, financially focused subset of an organization's asset register, and is used to produce important financial reports and schedules including depreciation schedules and journals, reports of asset additions and disposals, insurance reports, and a list of capital assets for performing physical inventories. To perform these functions, the CAR should contain one record for each capital asset including the asset's acquisition date, cost, classification, and department.

OIPA found that individual capital assets appear multiple times in the CAR because SANDAG uses separate records to track the funding sources and payments used to acquire each asset. For example, SANDAG's Boardroom audio-visual system ($59,768) is recorded twice in the CAR, once for $4,973 allocated to the ARJIS fund and another for $54,795 allocated to the SANDAG fund[14]. SANDAG uses the CAR to perform physical inventory of capital assets.

Because the CAR contains multiple records for the same physical asset, SANDAG cannot reliably use it to generate key reports including a comprehensive capital asset listing, insured value reports, depreciation schedules and journals, and reports of asset additions and disposals or perform a physical inventory of capital assets.

---

[13] Specific data integrity errors are included in Appendix C – Finding 2: Detailed Listing of Additional Data Integrity and Financial Reporting Deficiencies.

[14] Other examples can be found in Appendix C – Finding 2: Detailed Listing of Additional Data Integrity and Financial Reporting Deficiencies.

Reported Useful Lives Do Not Agree to SANDAG's Asset Records

To determine whether capital asset records are complete and accurate, we evaluated whether useful lives assigned in SANDAG's ERP system were consistent with established asset classes and the useful life information in SANDAG's *Fixed Asset Policy*.

OIPA found that assets were assigned incorrect useful lives in ERP. As shown in Table 2 below, 55 asset records had useful lives that were not approved in SANDAG's policy.

Table 2

Comparison of Asset Type and Useful Life in SANDAG's Fixed Asset Policy and ERP System

Asset Type	Approved Useful Life	ERP Asset Class	Useful Life Assigned to Assets	Number of Assets with Unapproved Useful Life
Computer Equipment	3	Computer hardware and software	2, 4, 5, and 20	19
Leasehold Improvements	5	Leasehold improvements	10	4
Office Equipment	3	Office equipment and furniture	5	32
			Total	**55**

Source: SANDAG's Fixed Asset Policy and ERP System

SANDAG's policy also included an asset type (internally generated computer software), which was not found in the ERP system.

According to Management, useful lives are assigned by asset subclasses in the ERP system. OIPA found the Agency's policy didn't define asset sub classes or their corresponding useful lives. After implementing the ERP system in FY 2024, Management did not update its useful life policy, nor was it updated when SANDAG reapproved the policy in May 2025.

Given the lack of information and inconsistent information, further analysis is needed to determine the impact on depreciation and financial reporting.

Capital Assets Are Not Properly Classified as Real Property or Equipment[15]

SANDAG does not consistently classify or document capital assets as real property or equipment. Although SANDAG's *Fixed Asset Policy* defines real property to include structures and appurtenances, OIPA found inconsistent application of the policy.

- An HVAC system was classified as Equipment and Other (EO) with a five-year useful life, even though management considered it part of the building. Accounting and Finance also did not require a disposal memorandum because it was treated as part of the building.

- A security system was classified as EO, but Accounting and Finance did not require a disposal memorandum because it was considered part of the building. Without supporting documentation, OIPA could not determine whether the system was permanently affixed and, therefore, could not verify the classification.

- Bird deterrents (spikes adhered to building) were classified as EO because Management stated they are removable from buildings.

- Assets were classified as EO even though they represent permanently installed Bus Rapid Transit infrastructure.

Incorrectly classifying assets can result in erroneously calculating depreciation expense in financial reporting.

Capital Asset Records Are Incomplete, Inaccurate, and Not Supported by Documentation

The Agency's capital asset records contain significant data quality issues and incomplete supporting documentation that limits the reliability and audit trail supporting financial reporting. Examples identified include:

- inaccurate asset quantities, unit costs, and descriptions;

- missing supporting documentation, including missing invoices for a significant portion of sampled assets;

- incomplete asset ownership information;

---

[15] Real property is an immovable asset, such as land, buildings, and permanent fixtures. Equipment is a movable asset, such as company vehicles, heavy construction equipment, and photocopiers/scanners.

- untimely recording of asset acquisitions and software subscriptions; and
- asset disposals are processed without adequate supporting documentation.

Capital asset records are not fully auditable, increasing the risk of material misstatement in the financial statements, including errors in asset balances, depreciation, and asset activity.

Insufficient Controls to Ensure Reliable Financial Reporting

Effective capital asset financial reporting requires documented policies and procedures, consistent application, and defined controls throughout the asset lifecycle. As indicated above and in Appendix C, OIPA identified significant control gaps limiting the Agency's ability to ensure capital asset records are complete, accurate, and consistently maintained.

As a result, there is an increased risk that Accounting and Finance does not have sufficient information to support reported capital asset balances, additions, disposals, depreciation expense, and accumulated depreciation.

SUMMARY

As noted in this finding and its corresponding appendix, deficiencies in asset-level record-keeping, classification, valuation, useful life assignments, supporting documentation, and internal controls prevent the Agency from maintaining a complete and accurate inventory of its capital assets. These weaknesses increase the risk of misstated financial statements, inaccurate insurance coverage assessments, and reduced ability to demonstrate stewardship over Agency-owned assets. Until these deficiencies are addressed, SANDAG cannot ensure that capital assets are properly recorded, reported, valued, insured, and supported by reliable documentation.

RECOMMENDATIONS

To ensure capital asset records are complete, accurate, auditable, and capable of supporting reliable financial reporting, SANDAG's Accounting and Finance team should:

1. Immediately consult with SANDAG's financial auditors to determine whether the issues identified require correction in the current year's financial statements or a restatement of prior year audited financial statements.

2. Immediately consult with the ERP vendor and financial auditors on the most effective use of the capital asset module and integration with the general ledger to ensure proper use and accurate reporting, including ensuring a complete and accurate CAR.

3. Establish and implement a comprehensive capital asset governance program, including defining:

    - ownership accountability
    - data quality standards
    - cadence and frequency of controls
    - supporting documentation requirements
    - supervisory review and data validation checks
    - periodic reconciliations and ongoing monitoring controls

4. Validate and update existing capital asset information in ERP, including ensuring the completeness and accuracy of data entered into ERP and verifying all necessary supporting documentation is included for each asset record throughout the life of the asset.

RECOMMENDATION IMPLEMENTATION TIMELINE BASED ON RISK LEVEL

Finding	Recommendation	Immediate Action Required	Priority Action Required	Routine Action Required
1	1. Establish Board-level policy expectations focused on asset stewardship, accountability, internal control, lifecycle management, transparency, and reporting requirements.	✓		
1	2. Appoint a senior level executive who is responsible for administering the Agency's asset inventory management program, including setting strategy and expectations, monitoring compliance, and designating official system(s) of record.	✓		
1	3. Establish a formal enterprise-wide asset management strategy, approved by the CEO, defining organizational objectives, governance expectations, stewardship responsibilities, and lifecycle management requirements for all major and minor assets.		✓	
1	4. Establish and document the roles and responsibilities and expected workflow between functions responsible for the governing, strategy, use, management, and financial reporting of the Agency's major and minor assets.		✓	
1	5. Establish formal internal control activities designed to ensure assets are properly authorized, recorded, safeguarded, periodically verified, and disposed of in accordance with applicable requirements, including: o formal supervisory review and approval processes for asset acquisitions, transfers, disposals, write-offs, and inventory adjustments. o periodic physical inventories of all major assets and risk-based inventories of minor assets.			✓
1	6. Develop a plan to oversee and coordinate the implementation of comprehensive policies and procedures governing all stages of the asset lifecycle, including: o planning including performance targets and investment prioritization o acquisition o tagging and recording o assignment and use o capitalization and classification o transfers and movement o maintenance and condition assessments o inventories and reconciliations o impairment and replacement o surplus management and disposal o monitoring and reporting requirements o record retention			✓

Finding	Recommendation	Immediate Action Required	Priority Action Required	Routine Action Required
1	7. Establish performance metrics and monitoring processes to evaluate the effectiveness of the asset management program, including inventory accuracy, asset utilization, maintenance compliance, and replacement planning.			✓
1	8. Define asset register data requirements that must be captured in SANDAG's asset register and in the CAR within the ERP system (e.g., financial, procurement, maintenance, and inventory), including: o asset identification and tagging o ownership and custody o location tracking o condition and maintenance history o lifecycle status o depreciation and financial data o asset disposal information		✓	
1	9. Establish a centralized asset inventory management system to record and track all major and minor assets throughout their lifecycle. This includes evaluating current systems to determine whether they can meet SANDAG's requirements for maintaining a complete and centralized asset inventory management system.		✓	
1	10. Coordinate with departments to update the asset register to include accurate and complete records of all major and minor assets.			✓
1	11. Ensure departments have appropriate access to asset records to enable them to effectively track and manage assets assigned to their areas of responsibility.			✓
1	12. Work with BITS to implement appropriate user access controls, segregation of duties, audit logging, and data governance controls within asset management systems to ensure the integrity and reliability of asset data.		✓	
2	1. Immediately consult with SANDAG's financial auditors to determine whether the issues identified require correction in the current year's financial statements or a restatement of prior year audited financial statements.	✓		
2	2. Immediately consult with the ERP vendor and financial auditors on the most effective use of the capital asset module and integration with the general ledger to ensure proper use and accurate reporting including ensuring a complete and accurate CAR.	✓		

Finding	Recommendation	Immediate Action Required	Priority Action Required	Routine Action Required
2	3. Establish and implement a comprehensive capital asset governance program including defining: o ownership accountability o data quality standards o cadence and frequency of controls o supporting documentation requirements o supervisory review and data validation checks o periodic reconciliations and ongoing monitoring controls		✓	
2	4. Validate and update existing capital asset information in ERP including ensuring the completeness and accuracy of data entered into ERP and verifying all necessary supporting documentation is included for each asset record throughout the life of the asset.			✓

The matrix above categorizes findings based on the urgency of the recommended corrective action: **Immediate Action Required, Priority Action Required,** and **Routine Action Required.**

To provide additional context and support appropriate prioritization of remediation efforts, the table legend below outlines associated risk levels, the rationale for those levels, and recommended timelines to address the risk.

Risk Level	Severity of Control Issue	Rationale	Recommended Timeline
High	Key controls do not exist or are not effectively designed, resulting in an impaired control environment – immediate corrective action is needed.	Immediate action is needed to mitigate significant issues identified during the audit. Delays could lead to harmful operational, financial, or compliance failures.	Immediate Action *Within 30 days (or immediately, if feasible)*
Medium	Some key controls exist but are not operating as intended or are inconsistently followed, potentially exposing the organization to moderate risk – corrective action should be prioritized and taken in a timely manner.	Timely remediation is necessary to strengthen control effectiveness and reduce exposure to potential moderate-level issues.	Priority Action *Within 60-90 days*
Low	Controls are generally effective and appropriately designed, with only minor issues identified – corrective action is recommended but not urgent.	Corrective action is recommended but not urgent; it can be addressed during routine process improvements.	Routine Action *Within 6 months*

APPENDIX A – AUDIT OBJECTIVES, SCOPE, METHODOLOGY, DATA INTEGRITY, SCOPE LIMITATION AND GAGAS COMPLIANCE

OBJECTIVES

This audit evaluated whether there was sufficient oversight of the Agency's inventory of major and minor assets. The objectives of the audit were to:

1. Determine whether Management implemented planned corrective actions, and whether those actions effectively addressed the previously identified internal control weaknesses.

2. Assess the design and adequacy of inventory management processes, policies, and internal controls for major and minor assets, ensuring compliance with regulatory and accounting standards.

3. Evaluate whether major and minor assets are accurately recorded, properly safeguarded, and effectively managed.

SCOPE

The audit scope was July 1, 2024, to June 30, 2025.

METHODOLOGY

The audit assessed the governance, strategy, inventory management, and financial reporting of the Agency's major and minor assets in accordance with applicable laws, regulations, Board policies, administrative policies, and departmental procedures.

As part of this audit, OIPA reviewed asset records stored in SANDAG's shared drive, Freshservice, and the ERP system. For major and minor assets acquired, owned, or disposed of during the audit period, OIPA assessed whether supporting records were accurately and completely maintained in the appropriate repository – Excel files stored on a shared drive for non-IT assets and Freshservice for IT assets.

OIPA also evaluated SANDAG's capital asset records maintained in the ERP system to determine whether SANDAG maintains accurate and complete inventory of capital assets in compliance with laws, regulations, and policy.

To support our review, OIPA performed judgmental sampling of selected assets to verify their existence, and to determine whether they were accurately and completely recorded in the Agency's systems. This included obtaining reasonable assurance that both major and minor assets were appropriately identified, tagged, and recorded within the Agency's asset management environment.

DATA INTEGRITY

Data integrity is considered in evaluating whether systems prevent unauthorized access, manipulation, or errors. To evaluate the data integrity of SANDAG's inventory management records, OIPA evaluated access, use, accuracy, and completeness of the inventory systems used by SANDAG to record major and minor assets. The Agency's inventory system is composed of Excel files stored on a shared drive, Freshservice, and ERP. OIPA reviewed stored data to assess inventory practices. Within this data, OIPA noted several control weaknesses that impacted the effectiveness and reliability of these sources. These included:

- user access controls not formally defined or enforced in Freshservice;
- absence of an audit trail in Freshservice;
- poor design, including failure to identify key data fields and require those fields to be captured and/or completed within all systems; and
- Excel documents without clear version control.

These conditions place a disproportionate burden on auditors to identify which documents are final, complete, and applicable.

AUDIT SCOPE LIMITATION

During our review of SANDAG's inventory management practices, we identified four scope limitations affecting our ability to fully determine the completeness and accuracy of SANDAG's inventory counts, balances, and asset records:

1. <u>Unreliable Minor Assets Records</u>

   SANDAG does not maintain accurate records of minor assets, including information such as location, quantity, description, owner, or assigned user. As a result, we were unable to perform testing to verify the existence, completeness, and accuracy of recorded minor assets.

2. <u>No Asset Records for Major Non-IT Assets</u>

   The Agency does not track major non-IT assets within its asset register. As a result, OIPA is unable to reconcile and verify the completeness and accuracy of its asset register to the CAR within the ERP system.

3. <u>Incomplete and Inaccurate Capital Asset Records</u>

   SANDAG's capital asset records contain significant data integrity, record-keeping, and process weaknesses affecting asset valuation, classification, ownership, acquisition, depreciation, inventory accountability, and overall data quality. As a result, we were unable to perform sufficient testing to verify the existence, accuracy, and completeness of capital assets recorded in the system.

4. <u>Inadequate Disposed Asset Tracking</u>

   The Agency's records of disposed assets do not consistently capture sufficient identifying information to support verification of asset removal from inventory systems. As a result, we were unable to determine whether assets were appropriately removed from the Agency's asset registers and CAR in the ERP system, including confirmation that capitalized assets were properly and timely removed from the financial system upon disposal.

COMPLIANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

OIPA conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that OIPA plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. OIPA believes the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX B – FINDING 1: DETAILED LISTING OF ADDITIONAL DATA INTEGRITY AND ASSET LIFECYCLE DEFICIENCIES

CATEGORY OF ISSUE	DESCRIPTION OF ERROR OBSERVED

Executive Management Strategy and Policy	Executive Management has not established Agency-wide strategy and policy for asset management to:
	• Communicate its expectation that the Agency maintain complete and accurate records of Agency assets in compliance with laws, regulations, and best practices.
	• Define common terminology used in Agency's asset inventory management system.
	• Define minimum tagging standards and designate the system(s) of record.
	• Require receiving departments to document the receipt and condition of assets, and to record when assets are accepted and placed into service.
	• Define maintenance strategy (i.e., preventive vs. corrective) and service level expectations.
	• Develop criteria for assessing asset performance, condition, or replacement.
	• Establish requirements for conducting compliance reviews or exception reporting for asset inventory management.
	• Set expectations for disposing of assets and addressing risk requirements including:
	  o Allowable disposal methods (e.g., trade-in allowance, sale, auctions, destruction)
	  o Required supporting documentation
	• Develop and circulate asset lifecycle templates and forms to document asset additions, changes, and disposals. A review found:
	  o Departments inconsistently created disposal memorandums, resulting in variation in the data captured for disposed assets.[16]
	  o Approved disposal memorandums are not stored in a centralized location.

[16] Board Policy 028 requires the Agency to create a disposal memorandum for certain assets and the CEO to approve the memorandum before disposing of those assets.

<table>
<tr><th>CATEGORY OF ISSUE</th><th>DESCRIPTION OF ERROR OBSERVED</th></tr>
<tr><td rowspan="2">Executive Management Strategy and Policy

(Continued)</td><td>The Agency has not established a central online repository for employees to access current and approved Standard Operating Procedures (SOPs).</td></tr>
<tr><td>OIPA reviewed the Agency's asset management policies to assess if policies are clear, enforceable, auditable, and consistent across an organization. Of the six (6) policies reviewed:
3 did not identify who is responsible for setting the policy
4 did not cite applicable laws and regulations
1 did not identify the intended audience
2 did not set overall expectations
4 were missing defined roles and responsibilities for carrying out activities, including approvals
5 did not describe how activities would be monitored or how compliance would be enforced
3 were missing the required review cycle
3 were missing version control and the approval process</td></tr>
<tr><td rowspan="3">Administration - Inventory Management</td><td>Administration did not conduct a physical inventory of non-IT minor assets during the audit scope period. Additionally, after the headquarters' relocation, the Agency did not verify that all assets had been delivered to and accounted for at the new headquarters. There are no documented procedures for conducting the physical inventory of non-IT minor assets.</td></tr>
<tr><td>Although Management approved a policy, the Furniture, Fixtures, and Equipment (FF&E) Asset Inventory and Tracking SOP which covers minor assets, in 2023, the document remains watermarked as a draft, and it is unclear whether it was finalized and implemented.</td></tr>
<tr><td>A draft policy, the FF&E Asset Inventory and Tracking SOP, is missing requirements to tag minor assets and establish controls to safeguard them. While the SOP addresses certain asset lifecycle activities, it does not provide sufficient guidance for documenting non-IT asset custodians or for managing asset maintenance, inventories, transfers, and disposals. In addition, the SOP does not address asset management requirements for all Agency locations – only 401 B Street, SANDAG's previous office location, was included.</td></tr>
</table>

<table>
<tr><th>CATEGORY OF ISSUE</th><th>DESCRIPTION OF ERROR OBSERVED</th></tr>
<tr><td rowspan="4">Information Technology (IT) Inventory Management</td><td>IT major and minor asset records in the Agency’s asset register are incomplete and inaccurate. OIPA found:
Freshservice is not configured to capture the assets’ manufacturer/model, serial number, asset classification (major or minor), acquisition cost, asset status, disposal method, and disposal date.
Data fields for the asset description, assigned department, and location are not required and contain blanks.
1,001 (30%) asset records had a blank asset description field.
2,970 (88%) asset records had a blank department field.
434 (13%) asset records had a blank asset location field.
1,224 (36%) assets show their location as 401 B Street, SANDAG’s previous office location.
Although the asset type is a required field, it is not populated through a standardized drop-down list. As a result, staff can enter free-text values, leading to inconsistent asset classifications.</td></tr>
<tr><td>BITS staff use different inventory report formats to perform physical inventories because a standardized process for generating inventory reports has not been established. Documented procedures for the inventory count process are not in place, including performing counts, resolving discrepancies, and reviewing and approving inventory count reports.</td></tr>
<tr><td>BITS has three policies for managing IT assets; however, the policies do not establish a comprehensive process or key controls for managing assets.</td></tr>
<tr><td>BITS’ asset disposal procedures are not documented.</td></tr>
</table>

CATEGORY OF ISSUE	DESCRIPTION OF ERROR OBSERVED
IT Inventory Management (Continued)	A review of a policy for managing IT assets, the *Inventory Management Lifecycle SOP*, found the document: • does not define major and minor IT assets. • does not address key lifecycle activities such as recording an asset's description and cost, validating and documenting an asset's condition, tracking maintenance, or maintaining accurate records of asset location, movement, invoices, work orders, physical inventory, and disposal memorandums. • does not address all IT assets (it's heavily focused on laptops and monitors). • does not define the frequency that activities should be performed.
	Two policies (*Systems Lifecycle Management Policy* and *IT Department Laptop Refresh Policy*) do not document the approvers' name or title and are missing their last revision date. These policies are not designed to capture the date.
IT Inventory Management System	Management does not generate and review the Freshservice audit log to detect unauthorized or suspicious activity or confirm that changes are valid and appropriate.
	Freshservice does not have an audit trail for deletions. There is no data dictionary available for the Freshservice system.
	4 of 16 users with administrator roles within Freshservice are not in BITS. OIPA also noted that some BITS users had more than one administrative role in the system.
	No reviews were performed for Freshservice user access. While BITS Management conducts quarterly Active Directory access reviews, Freshservice accounts are linked to single sign-on and employee email accounts are not separately reviewed. There is no established process for managing provisioning, deprovisioning, and conducting user access reviews of the Freshservice application.
Gaps in Record Retention	No documented record retention requirements exist for minor asset records. The current Record Retention Schedule only covers capital assets under Accounting and Finance responsibilities.

APPENDIX C – FINDING 2: DETAILED LISTING OF ADDITIONAL DATA INTEGRITY AND FINANCIAL REPORTING DEFICIENCIES

CATEGORY OF ISSUE	DESCRIPTION OF ERROR OBSERVED
Errors in the Capital Asset Register (CAR)	Asset descriptions are unclear or inaccurate and do not consistently support proper asset identification. OIPA found asset descriptions do not agree with the asset's classification, have insufficient detail to identify the asset, and reference outdated locations such as the 401 B Street office.
	The ERP system was programmed to calculate depreciation using the asset's purchase (acquisition) date rather than the date the asset is placed into service. Accounting rules require depreciation to begin when an asset is placed into service, not when it is purchased. According to Management, staff replaces the acquisition date with the placed-in-service date when the dates are different. As a result, the ERP system no longer retains the true purchase date for all assets.
	In some instances, the asset quantity was recorded in both the asset's description and quantity fields, although it should only be recorded in the quantity field. There were also 55 capital assets records with discrepancies between the quantities in the description and quantity fields. According to Management, asset descriptions were migrated from the previous financial system into ERP and included asset quantities in the description field because the previous system did not have a separate quantity field. However, eight (8) of the assets reviewed were entered directly into ERP rather than migrated from the previous system, indicating the issue was not limited only to migrated asset records.
	15 of 579 capital asset records have a total acquisition cost that does not equal the unit cost multiplied by the quantity.
Testing Results for the CAR	19 of 25 capital assets records reviewed in ERP did not have an invoice attached; though Accounting and Finance located one invoice, the remaining 18 invoices were not found. SANDAG's record retention policy requires Accounts Payable to maintain asset inventories, invoices, and supporting documents permanently. SANDAG stated that sufficient documentation was available for four (4) of the assets. Although SANDAG asserts missing vendor invoices are maintained outside the ERP system, OIPA found asset records did not indicate where the invoices are stored, and no invoices were provided to OIPA. According to Management, SANDAG's process is to include invoices and/or general ledger reports to support transactions. Maintaining invoices in capital assets records is a strong internal control. If SANDAG maintains records outside of ERP, the records should be both easily accessible and clearly associated with the applicable asset record, and the ERP record should identify where the invoices are stored.

CATEGORY OF ISSUE	DESCRIPTION OF ERROR OBSERVED
Testing Results for CAR (Continued)	SANDAG's ERP capital asset module should include a single record for each capital asset SANDAG owns. Instead, OIPA found SANDAG splits some capital assets into multiple capital asset records to track payment made and/or costs allocated to funds, including Governmental Activities (SANDAG), Business-type Activities (State Route 125, FasTrak), and ARJIS, a discretely presented component[17]. For example: • A single group of office furniture worth $1.5 million including installation costs was recorded as two separate assets to record a deposit of $602,000 and final payment of $924,000. • 12 assets had an acquisition cost below $5,000 threshold for capitalization. Management confirmed these records represented part of a larger asset that was split to allocate costs to different funds.
	8 of 10 sample disposed assets were removed from the CAR though Accounting and Finance did not obtain disposal memorandums as supporting documentation. According to Management, staff removed the assets from the CAR after obtaining an email from the Department Director confirming the assets were missing. However, relying solely on email confirmation is not a sufficient process for addressing missing assets as it does not provide a standardized investigation, documentation, or approval process to support asset disposition decisions. Of the two assets with disposal memorandums, the disposal memorandum for one asset did not include the assets' original or depreciated value or the method of disposal as required by policy. This memorandum was also prepared and approved after the asset was already disposed. Departments are responsible for preparing disposal memorandums.
Gaps in Capital Asset Reporting Process	Accounting and Finance's process for identifying software and subscriptions is manual and not documented, requiring staff to search CMS and ERP systems to identify software and subscriptions for financial reporting.
	There is insufficient guidance around the major asset physical inventory process, including: • standardizing the physical inventory report used to conduct physical asset inventories; • inspecting, assessing, and documenting asset conditions on the physical inventory report; and • assigning staff responsible for performing inventory reconciliations and approving inventory reports.

[17] See Figure 2 for Capital Assets reported by Governmental, Business-type, and ARJIS.

CATEGORY OF ISSUE	DESCRIPTION OF ERROR OBSERVED
Gaps in Capital Asset Reporting Process (Continued)	The responsibility for conducting physical inventory for major assets should not be a function of Accounting and Finance.
	No criteria exist to determine how the assessed condition (i.e., new, good, or poor) will impact the capital assets' depreciation.
Capital Asset Policies and Procedures	A review of the policy over capital assets, the *Fixed Asset Policy*, found the document does not have the following guidance: • Asset useful life assignments and tracking • Assignment of a department custodian in ERP • Updating maintenance and asset status in ERP • An independent verification that the CAR reconciles to the general ledger • Roles and responsibilities defined for all activities related to the capital assets • Criteria to amortize an asset • Changing status of asset within ERP when informed of disposal. Disposal codes are not defined. • Criteria used to calculate the acquisition cost for capital assets, such as including the costs for freight, implementation, tax, etc. In addition, the process for identifying new capital assets is manual and requires Accounting and Finance to request Contracts and Procurement, BITS, and project managers to provide information on assets acquired during the past year, rather than those departments informing Accounting and Finance upon the acquisition of a new asset at the time of purchase.
	Capital asset desk procedures for the ERP system are not reviewed and approved by Management.

APPENDIX D – STATUS OF MANAGEMENT'S PLANNED ACTIONS TO RESOLVE KNOWN DEFICIENCIES IN THE AGENCY'S ASSET INVENTORY PROGRAM

In 2023, OIPA initiated an audit of SANDAG's inventory management to ensure the public resources managed by SANDAG are properly accounted for, protected, and used appropriately. However, OIPA discontinued the engagement due to significant internal control weaknesses requiring immediate Management action. In response, Management developed a CAP with implementation targeted for completion by March 2025.

Audit Objective 1 evaluated the implementation status of the CAP and found:

#	Planned Action	Status of Action
1	Prepare contract amendment to add the Asset and Inventory related modules to the ERP system.	Implemented[18]
2	Prepare Request for Proposal (RFP) and procure professional consultant services to assist with the design and implementation of asset management and inventory control systems.	Implemented
3	Participating departments identify types of assets to be included in the Asset Management System.	Not implemented
4	Asset management consultants conduct a comprehensive analysis of agency's assets and develop a strategic asset management plan aligned with organizations objectives, Board policies and goals.	Not implemented
5	Implementation of the Asset and Inventory modules within the ERP system is completed.	Partially implemented[18]
6	SANDAG has fully established its Asset Management program, software tools, policies, and procedures across relevant departments.	Not implemented[19]

[18] SANDAG completed a contract amendment to implement the Inventory module in ERP. However, the amendment was cancelled in September 2025 and SANDAG decided to use Freshservice as its inventory tracking system. The audit found Freshservice was only used for IT assets. The Capital Asset module was included in the ERP system implementation.
[19] OIPA determined the status of this planned action through the completion of Audit Objectives 2 and 3. Objectives can be found in Appendix A – Audit Objectives, Scope, Methodology, Data Integrity, Scope Limitation and GAGAS Compliance.

APPENDIX E – EXAMPLES OF FEDERAL AND STATE LAWS AND REGULATIONS RELATED TO ASSET MANAGEMENT

41 CFR Part 101-27 establishes requirements for the management and control of inventory held by federal agencies. It emphasizes maintaining inventory levels that support operational needs while avoiding excessive accumulation. The regulation requires agencies to implement controls over acquisition, storage, usage, review, redistribution, and disposal of inventory items. It also establishes expectations for periodic inventory analysis, shelf-life monitoring, accountability for excess property, and procedures to prevent waste, deterioration, or unnecessary procurement. Overall, the section promotes disciplined stewardship, inventory accountability, and efficient lifecycle management of government property.

49 CFR Part 625 establishes the Federal Transit Administration's requirements for Transit Asset Management programs. It requires transit agencies to develop and maintain formal asset management plans that include asset inventories, condition assessments, performance targets, investment prioritization, and lifecycle management practices. The regulation promotes a systematic and data-driven approach to maintaining capital assets in a state of good repair. It also establishes governance, reporting, analytical, and decision-support requirements intended to improve reliability, accountability, transparency, and long-term stewardship of public transportation assets.

49 USC 5326 establishes the legal foundation for Transit Asset Management requirements for federally funded transit agencies. It requires recipients to implement asset management systems that support the development of capital asset inventories, condition assessments, investment prioritization, and lifecycle decision-making. The statute emphasizes maintaining assets in a state of good repair through structured planning, performance monitoring, and reporting. Its purpose is to improve operational reliability, safety, accountability, and the long-term stewardship of transit assets.

49 USC 5337 requires transit agencies receiving State of Good Repair funding to develop and maintain transit asset management plans that include asset inventories, condition assessments, decision-support tools, and investment prioritization processes. The statute reinforces the expectation that agencies establish structured governance and planning processes to support the maintenance, rehabilitation, and replacement of capital assets. It promotes accountability and informed investment decisions to ensure assets remain safe, reliable, and operationally effective.

2 CFR 200.302 establishes requirements for financial management systems used in connection with federal awards. It requires organizations to maintain records that accurately identify the source, use, and accountability of funds and assets. The section also requires effective internal controls, documentation, and financial reporting processes that support transparency, auditability, and compliance with federal requirements. These provisions establish the expectation that organizations maintain reliable systems for tracking, safeguarding, and reconciling assets and expenditures.

2 CFR 200.303 requires organizations receiving federal funds to establish and maintain effective internal controls over federal programs and assets. It emphasizes compliance with federal laws, regulations, and award conditions, while promoting accountability, risk management, and safeguarding of resources. The regulation establishes management's responsibility to implement control activities, monitor compliance, and prevent misuse, loss, or mismanagement of federally funded assets and operations.

California Government Code 24051 requires county officers and governing bodies to maintain records and conduct inventories of public property under their control. It establishes accountability for the custody, disposition, and destruction of property and requires formal review and approval processes for disposal activities. The statute supports stewardship and safeguarding by requiring periodic verification of assets and documented oversight over public property management activities.

California Government Code 54222 requires local agencies disposing of surplus property to provide formal notice prior to disposal or negotiation activities. The regulation promotes transparency, accountability, and oversight in the disposition process by ensuring that surplus property actions are documented and communicated appropriately before assets are transferred, sold, or otherwise disposed of.

California Department of General Services SAM Sections 8650–8650.2 establishes requirements for recording, tagging, tracking, and accounting for capital assets. Departments are required to maintain detailed property records, including acquisition information, ownership data, depreciation information, and asset identifiers. The sections also require reconciliation between accounting records and property inventories to support financial accuracy, asset traceability, and accountability. Collectively, these requirements establish foundational controls for safeguarding and managing state-owned assets.

California Department of General Services SAM Section 8652 establishes requirements for departments to maintain inventory control systems and conduct periodic inventories and reconciliations. It requires agencies to implement inventory planning processes, maintain accurate records, reconcile accounting and property records, and monitor acquisitions and dispositions of capital assets. The section promotes accountability, stewardship, and the integrity of property records by ensuring that agencies maintain accurate and supportable asset information.

APPENDIX F – RECOMMENDATION FOR THE BOARD OF DIRECTOR'S CONSIDERATION

Finding No.	Rec No.	OIPA Recommendation	Board of Directors Response	Responsible Owner(s) and Target Completion Date
1	1	The Board should establish Board-level policy expectations focused on asset stewardship, accountability, internal control, lifecycle management, transparency, and reporting requirements.	TBD	TBD

SANDAG

August 28, 2026

Courtney Ruby
Independent Performance Auditor
Office of the Independent Performance Auditor

RE: Management's Response to the Office of the Independent Performance Auditor's Performance Audit of SANDAG's Inventory Management of Major and Minor Assets

Dear Independent Performance Auditor Ruby:

Thank you for the opportunity to respond to the Office of the Independent Performance Auditor's (OIPA's) Audit of SANDAG's Inventory Management of Major and Minor Assets (Inventory Audit). Management acknowledges and welcomes the insights presented in the report. Standing up an asset management program has been a priority for the agency over the past year. While we have made important progress, this report provides valuable perspective for fully institutionalizing asset management best practices across the agency.

Our commitment to improving our asset management program is described in our management response. We view the recommendations not as separate and isolated items. Instead, we view them as interconnected actions, that when examined in totality, are the fundamental elements outlined in asset management frameworks.

Sincerely,

Robyn J. Wapner

Robyn Wapner for Mario Orso, CEO
Senior Director of Administration and Public Affairs

Attachment 1 – Management Corrective Action Plan - SANDAG's Inventory Management of Major and Minor Assets

1011 Union Street, Suite 400
San Diego, CA 92101-2392 | 619.699.1900 | SANDAG.org

SANDAG

Performance Audit of SANDAG's Inventory Management of Major and Minor Assets
SANDAG's Corrective Action Plan

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
1	2	Appoint a senior level executive who is responsible for administering the Agency's asset inventory management program, including setting strategy and expectations, monitoring compliance, and designating official system(s) of record.	Agree. Operationally, responsibilities for administering the Agency's asset inventory management program have been assigned to the Senior Director of Administration and Public Affairs. The CEO will formalize this assignment in a CEO Executive Directive.	CEO October 31, 2026
1	3	Establish a formal enterprise-wide asset management strategy, approved by the CEO, defining organizational objectives, governance expectations, stewardship responsibilities, and lifecycle management requirements for all major and minor assets.	Agree. SANDAG will develop a formal enterprise-wide asset management policy that includes objectives, governance, stewardship, and lifecycle management guidance for major and minor assets. The policy will be approved by the CEO, consistent with the agency's internal governance program.	Senior Director of Administration and Public Affairs April 30, 2027
1	4	Establish and document the roles and responsibilities and expected workflow between functions responsible for the governing, strategy, use, management, and financial reporting of the Agency's major and minor assets.	Agree. SANDAG will establish and document roles and responsibilities and the expected workflow between functions responsible for the various aspects of the agency's asset management program.	Senior Director of Administration and Public Affairs April 30, 2027

Performance Audit of SANDAG’s Inventory Management of Major and Minor Assets

SANDAG’s Corrective Action Plan

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
1	5	Establish formal internal control activities designed to ensure assets are properly authorized, recorded, safeguarded, periodically verified, and disposed of in accordance with applicable requirements including: o formal supervisory review and approval processes for asset acquisitions, transfers, disposals, write-offs, and inventory adjustments. o periodic physical inventories of all major assets and risk-based inventories of minor assets.	Agree. SANDAG will establish formal internal control activities designed to ensure assets are properly authorized, recorded, safeguarded, periodically verified, monitored, and disposed of per best practices.	Director of Internal Controls April 30, 2027

Performance Audit of SANDAG's Inventory Management of Major and Minor Assets

SANDAG's Corrective Action Plan

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
1	6	Develop a plan to oversee and coordinate the implementation of comprehensive policies and procedures governing all stages of the asset lifecycle, including: o planning including performance targets and investment prioritization o acquisition o tagging and recording o assignment and use o capitalization and classification o transfers and movement o maintenance and condition assessments o inventories and reconciliations o impairment and replacement o surplus management and disposal o monitoring and reporting requirements o record retention	Agree. SANDAG will develop a plan to oversee and coordinate the implementation of comprehensive policies and procedures governing the asset lifecycle from planning through disposal.	Senior Director of Administration and Public Affairs April 30, 2027
1	7	Establish performance metrics and monitoring processes to evaluate the effectiveness of the asset management program, including inventory accuracy, asset utilization, maintenance compliance, and replacement planning.	Agree. SANDAG will benchmark best practices and develop performance metrics and monitoring procedures that evaluate the effectiveness of the asset management program.	Senior Director of Administration and Public Affairs April 30, 2027

Performance Audit of SANDAG's Inventory Management of Major and Minor Assets
SANDAG's Corrective Action Plan

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
1	8	Define asset register data requirements that must be captured in SANDAG's asset register and in the CAR within the ERP system (e.g., financial, procurement, maintenance, and inventory), including: o asset identification and tagging o ownership and custody o location tracking o condition and maintenance history o lifecycle status o depreciation and financial data o asset disposal information	Agree. SANDAG will define the data inputs required for entry in its identified asset management systems. The requirements will include key information, including, but not limited to, unique identifiers, asset location, etc.	Senior Director of Administration and Public Affairs April 30, 2027
1	9	Establish a centralized asset inventory management system to record and track all major and minor assets throughout their lifecycle. This includes evaluating current systems to determine whether they can meet SANDAG's requirements for maintaining a complete and centralized asset inventory management system.	Agree. SANDAG will establish an asset inventory management system that will record and track all major and minor assets throughout the asset management lifecycle. This is already aligned with SANDAG's larger system assessment efforts.	Senior Director of Administration and Public Affairs April 30, 2027
1	10	Coordinate with departments to update the asset register to include accurate and complete records of all major and minor assets.	Agree. SANDAG will update its asset records to include accurate and complete records of its major and minor assets. Management will determine the approach for updating records once the full scope and resource requirements have been assessed including the development of the asset management plan, volume of historical records (legacy, physical, electronic, etc.), available resources, relation to existing internal improvement efforts, etc.	Senior Director of Administration and Public Affairs December 31, 2027 1

1 See OIPA's response to Management's response at Appendix H on page 55.

SANDAG

Performance Audit of SANDAG's Inventory Management of Major and Minor Assets
SANDAG's Corrective Action Plan

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
1	11	Ensure departments have appropriate access to asset records to enable them to effectively track and manage assets assigned to their areas of responsibility.	Agree. SANDAG will provide appropriate access to asset records for relevant staff to ensure proper tracking and management of assets within departments.	Senior Director of Administration and Public Affairs April 30, 2027
1	12	Work with BITS to implement appropriate user access controls, segregation of duties, audit logging, and data governance controls within asset management systems to ensure the integrity and reliability of asset data.	Agree. SANDAG will implement appropriate user access controls, segregation of duties, audit logging, and data governance controls within the asset management systems to ensure the integrity and reliability of data.	Senior Director of Administration and Public Affairs April 30, 2027
2	1	Immediately consult with SANDAG's financial auditors to determine whether the issues identified require correction in the current year's financial statements or a restatement of prior year audited financial statements.	Agree. Management supports transparency and accuracy in financial reporting. SANDAG will disclose the matters discussed in the report with the financial auditors. The financial auditors maintain full discretion to evaluate and address the information as they deem appropriate.	Director of Accounting and Finance November 30, 2026

SANDAG

Performance Audit of SANDAG's Inventory Management of Major and Minor Assets

SANDAG's Corrective Action Plan

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
2	2	Immediately consult with the ERP vendor and financial auditors on the most effective use of the capital asset module and integration with the general ledger to ensure proper use and accurate reporting including ensuring a complete and accurate CAR.	Partially Agree. SANDAG partially agrees with this recommendation because the ERP vendor and the financial auditors serve two separate purposes. The vendor provides perspective on the capacity of the system. The financial auditors evaluate whether the financial reporting is compliant with accounting standards. SANDAG will consult with the ERP vendor to assess the setup of the Capital Assets module and if there are options available to improve capital asset and general ledger integration and reporting. SANDAG will review the capital asset listing with the financial auditors to ensure our financial reporting continues to be compliant with GAAP standards.	Director of Accounting and Finance December 31, 2026
2	3	Establish and implement a comprehensive capital asset governance program including defining: o ownership accountability o data quality standards o cadence and frequency of controls o supporting documentation requirements o supervisory review and data validation checks o periodic reconciliations and ongoing monitoring controls	Agree. SANDAG will develop a capital asset governance program that includes core elements such as frequency of controls, documentation requirements, ongoing monitoring, etc. The completion of the development of the governance program is anticipated by April 30, 2027. Implementation will require additional time to monitor and evaluate program effectiveness.	Senior Director of Administration and Public Affairs June 30, 2027

2

2 See OIPA's response to Management's response at Appendix H on page 55.

Performance Audit of SANDAG's Inventory Management of Major and Minor Assets

SANDAG's Corrective Action Plan

Finding No.	Rec No.	OIPA Recommendations	Management Corrective Action Plan (CAP)	Responsible Owner(s) and Target Completion Date
2	4	Validate and update existing capital asset information in ERP including ensuring the completeness and accuracy of data entered into ERP and verifying all necessary supporting documentation is included for each asset record throughout the life of the asset.	Agree. SANDAG will validate and update its capital asset information in ERP including asset descriptions, locations, quantity, class, and subclass. Management will determine the approach for updating records once the full scope and resource requirements have been assessed including the development of the asset management plan, volume of historical records (legacy, physical, electronic, etc.), available resources, relation to existing internal improvement efforts, etc.	Director of Accounting and Finance December 31, 2027

3

3 See OIPA's response to Management's response at Appendix H on page 56.

APPENDIX H – OIPA'S RESPONSE TO MANAGEMENT'S RESPONSE

1

Recommendation 1.10 (For Management's Response, refer to page 51)

As a steward of public funds, SANDAG must maintain accurate and complete records of all assets in its control, while also working to develop its strategic, governance and operational requirements over the enterprise-wide asset management system.

Though Management agrees with this recommendation, its planned action contains limited details and its timeline for taking action is troubling. Management has known it lacks sufficient controls over its asset management system for several years.

According to Management, it will determine the approach for updating records once the full scope and resource requirements have been assessed including the development of the asset management plan, volume of historical records (legacy, physical, electronic, etc.), available resources, relation to existing internal improvement efforts, etc. Further, Management does not plan to identify all the assets for 16 months, though OIPA recommends this task be completed much sooner – within 6 months. Expediency would demonstrate to the Board and the public that SANDAG understands the compliance and operational risk.

Though OIPA requested Management revise its corrective action plan to include specifics on how it would update asset records and address the unreasonable timeline, Management's revised response did not resolve OIPA's concerns regarding the lack of a specific implementation plan or the 16-month timeline.

2

Recommendation 2.2 (For Management's Response, refer to page 53)

The audit found SANDAG is not using its financial system effectively and efficiently. Specifically, SANDAG's method for tracking capital assets in ERP prevents the Agency from generating key reports including a comprehensive capital asset listing, insured value reports, depreciation schedules and journals, and reports of asset additions and disposals or performing a physical inventory of capital assets.

Management only **partially agrees** with the recommendation, and its planned action does not acknowledge the importance of engaging SANDAG's financial statement auditors or the importance of utilizing these contractors in tandem. SANDAG's planned action does not explain why it would not leverage available resources to strengthen its financial operations.

SANDAG's independent financial statement auditors should be used as a year-round resource, not solely during the annual audit. Their broad depth of financial reporting expertise, experience across multiple organizations, and access to specialized resources, such as IT, can help SANDAG address emerging issues before they become audit findings. When appropriate, SANDAG should leverage both the ERP vendor's technical expertise and the auditors' financial reporting expertise. Both vendors are already under contract with SANDAG.

Given this audit's findings, together with related findings from prior independent financial statement audits, the Accounting and Finance Independent Assessment, and OIPA's investigations related to SANDAG's financial operations, it is prudent for SANDAG to utilize its independent financial statement auditors more regularly to minimize the Agency's risk exposure and reduce the number of findings.

3 **Recommendation 2.4 (For Management's Response, refer to page 54)**

SANDAG must properly account for capital assets in its ERP system to support accurate financial reporting while also working to develop its strategic, governance and operational requirements over the enterprise-wide asset management system

Though Management agrees with the recommendation, its timeline for taking action is troubling. Management's approach is similar to **1.10** above and could be contributing to the lengthy timeline.

According to Management, it will determine the approach for updating records once the full scope and resource requirements have been assessed including the development of the asset management plan, volume of historical records (legacy, physical, electronic, etc.), available resources, relation to existing internal improvement efforts, etc.

Given this approach, Management does not plan to validate and update its capital asset information in ERP for 16 months, though OIPA recommends this task be completed much sooner – within 6 months. Expediency would demonstrate to the Board and the public that SANDAG understands the compliance and operational risk.

Though OIPA requested Management address the unreasonable timeline, Management declined to make changes.