



THE OFFICE OF THE INDEPENDENT PERFORMANCE AUDITOR

February 25, 2022

Chair Zito,
SANDAG Audit Committee

Dear Chair Zito:

Subject: Testing Results on Corrective Action Plan – Salary and Compensation Performance and Compliance Audit Items due as of December 31, 2021

Background

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

Objective

The objective of this review for the quarter ending December 31, 2021 is to ensure that the Corrective Action Plan items approved by the Board of Directors have been implemented and are consistently followed and to ensure that the finding identified in the audit has been corrected.

As stated by Management, 11 actions from the CAP were due to be completed in the fourth quarter of 2021.

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

The review consists of applying the following actions:

1. Vouching that the time commitment was accomplished.
2. Testing the outcomes/ outputs (e.g., policies, procedures, tracking sheets, system controls, or other tangible outputs) exists, are reviewed and to ensure that the matter addresses specific findings and the related causes and effects; and
3. To perform testing on applicable items to ensure that the actions have been successfully

implemented, enforced, are sufficiently documented, and that it has corrected the matter in an efficient and effective manner.

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

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

Action Items and Results

Action Item II.3:

Recommendation - To provide training to designated employees regarding procedures for separation/termination pay.

Management Action: Key agency employees, namely the CEO, General Counsel, and Manager of Human Resources, have reviewed the approved changes made to Board Policy No. 017 (Delegation of Authority) pertaining to severance payments, as described in Action Item II.2 in the Compensation Audit Action Plan, and have acknowledged their understanding of the policy and procedures.

OIPA Results: Management provided acknowledgement forms signed by the CEO, General Counsel and the Manager of Human Resources acknowledging their understanding of changes to Board Policy 017 regarding delegation of authority as it relates to termination pay such as severance pay, and other compensation payout as defined in Board Policy. Board Policy 017 was reviewed by OIPA during the last CAP review for quarter ending September 30, 2021 and found to be sufficient. This CAP item has been sufficiently completed.

Action Item IV.5, and VI.4:

Recommendation - To develop and formalize a procedure for reconciling the Board-approved annual compensation adjustment pool to the amount awarded to employees - the following work has been completed:

Management Actions:

- The procedure used by Payroll for reconciling annual compensation adjustments awarded to employees was updated. The updated procedure was used for reconciling the 2% compensation adjustment pool approved by the Board in FY 2021. The reconciliation for 3% and 1% compensation adjustment pools approved by the Board for FY 2022 is in process. The expected completion date for the reconciliation for the most recent pay increases is the end of January 2022.
- Payroll improved communication and clarified the documentation requested from Human Resources to support the reconciliation processes.
- Training is key for accurate and consistent processes and procedures to ensure appropriate controls are established for payroll functions. Training is provided to team members by a senior member of the Accounting and Finance department regarding payroll-related policies and

procedures. A detailed desk top manual also is available to team members for reference at any time and the Finance Manager is available for additional support and direction as needed. In response to Recommendation VI.4

OIPA Results: Auditors reviewed SANDAG’s document titled “Payroll Procedures on Reconciliations of Annual Compensation Adjustments” and requested evidence that the newly developed procedures were implemented and followed for FY2021 employee compensation adjustments. Based on our review, procedures were followed and implemented as stated. In regard to VI.4, auditor reviewed evidence of electronic data of SANDAG employees acknowledging their understanding of written payroll processes and procedures. Auditor also inquired with Human Resources regarding the specific types of improved communications and clarifications provided in supporting the reconciliation process and determined the explanation supported this statement. These CAP items have been sufficiently completed.

Action Item V.1, V.2, V.3, V.4 and V.5:

Recommendation- To clarify existing procedures and develop, document, and implement additional procedures related to general payroll processes, allocation of lump sum merit pay to projects, and reporting special compensation to CalPERS – the following work has been completed:

Management Actions:

- Payroll procedures documenting the control measures in place for the processing of general payroll actions and reporting special compensation were updated.
- SANDAG updated its compensation program in 2021 and no longer provides performance bonuses to employees. Employees who are ineligible to receive a base pay merit increase may be considered for Lump Sum Merit Pay. The process for reconciling lump sum merit pay as part of all compensation adjustments are described in written payroll procedures.
- Payroll improved communication and clarified the documentation requested from Human Resources to support the processes associated with general payroll, allocating lump sum payments to projects, and reporting special compensation to CalPERS.
- Specifically related to Action V.3, Management consulted with SANDAG’s external financial auditors to review practices used for allocating expenses for past bonus payments. A summary of this review was provided to OIPA.

OIPA Results:

Auditors reviewed various written payroll procedures prepared by SANDAG regarding processes and procedures relating to processing transactions and reporting special compensation to CalPERS. Procedures included steps to be taken and documentation requirements for both Human Resources and Finance for employee merit increases and lump sum payments. Additionally, auditors were provided emails and other confirmation which supported that all necessary adjustments for past bonus payments reported to CalPERS was addressed and that the allocation of lump sum bonuses to various projects were properly allocated and allowable. Bonuses are no longer offered to SANDAG employees. These CAP items have been sufficiently completed.

Action Item VII.3:

Recommendation - To document policy and practices related to maintaining the SANDAG salary ranges – the following work has been completed:

Management Actions:

- Management has prepared a new administrative policy to document the practices used for maintaining the salary ranges for each position classification used by SANDAG.
- Processes include conducting periodic market studies, typically performed by experienced compensation consultants, to evaluate competitiveness with similar public agencies and private sector employers. The description is consistent with the practices used when SANDAG conducted the 2021 market salary range study and brought recommendations to the Board for approval as part of the FY 2022 Program Budget.
- The policy also describes salary range maintenance activities that may occur in years when a market study is not conducted. Again, this work is typically conducted with assistance from expert compensation consultants.

OIPA Results: Auditors reviewed SANDAG’s newly prepared administrative policy titled “Maintaining Salary Ranges”. The document is well formed and detailed. The document includes roles and responsibilities, references the recent Market Salary Study, and guidance on the maintenance of market salaries. Further the document provides for a review and approval of the governing board and proper communication and transparency. Lastly, the document provides requirements for proper recording keeping and references other relevant and applicable policies and procedures. This CAP item has been sufficiently completed.

Action Item VIII.1:

Recommendation - To ensure consistent use of employee job titles in agency systems and documents - the following work has been completed:

Management Actions:

- Management has implemented a new administrative policy and procedure that outlines the requirement for Human Resources to consistently use employee job classification titles in systems, records, and documents maintained by Human Resources, and also to provide this information to program managers who maintain systems, records, and documents in their various program areas.
- This new policy and expectation for information maintenance was communicated to Human Resources team members and applicable program managers in December 2021. Reminders about the policy will be distributed annually.

OIPA Results: Auditors reviewed SANDAG’s newly prepared administrative policy titled “Standards for Maintaining Job Titles” and the email to applicable SANDAG employees informing them of the policy. The document includes roles and responsibilities, processes regarding communication to employees, internal coordination regarding newly created job classification and titles, entering titles into the employee database, and reference to the Employee Handbook section regarding “Working Titles”. This CAP item has been sufficiently completed.

Action Item IX.3:

Recommendation- To implement and document procedures that support fair and competitive hiring practices - the following work has been completed:

Management Actions:

- Management has implemented a new administrative policy that comprehensively outlines all phases of the recruitment and selection processes used on a regular, recurring basis for hiring new employees, consistent with the agency's Equal Employment Opportunity policy and objectives.
- The documentation describes responsibilities and activities undertaken by Senior Management, Directors, Hiring Managers, and Human Resources related to the approval to add or backfill an existing position; recruitment planning; preparation of the job announcement and advertising/outreach strategy; receipt of Employment Applications and applicant communication; application evaluation; candidates interviews and selection; preparing and negotiating job offers; pre- and post-employment checks, and onboarding.

OIPA Results: Auditors reviewed SANDAG's newly prepared administrative policy titled "Recruitment and Selection". The document is a well-documented guidance for the entire recruitment process. The document includes roles and responsibilities, the recruitment and selection program that is currently followed, the required approval to add a new position or fill a vacancy, step to followed regarding recruitment planning, preparation of job opening announcements and advertisement, receipt of applications, evaluation of applications, interviews and selection processes, reference checks and other verifications, conditional offers, onboarding and non-competitive recruitments, intern recruitments, use of staffing firms, and most importantly recording keeping and relevant references. This CAP item has been sufficiently completed.

In close the newly prepared administrative policies and procedures provide helpful, informative, and easy to follow guidelines that will support and help to ensure SANDAG's success in regard to employee compensation and recruitment. Having these written policies are only one leg of ensuring SANDAG's success; the other and even more important is to ensure that written policies and procedures are consistently followed and adhered to. Documentation of the actions taken that support the adherence to these guidelines are key and helps to support the "why" and other actions taken by management, provide transparency, and ensure fairness in the recruitment and compensation practices.

Additionally, based on the recent changes to SANDAG's organizational structure, we recommend that the above polices are reviewed to ensure that the roles and responsibilities identified throughout these documents are consistent with the recent changes.

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

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

Chair Zito
SANDAG Audit Committee
CAP Update 11 Items as of December 31, 2021
February 25, 2022

Respectfully,



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

cc:

Members of the Board of Directors (SANDAG)
Members of the Audit Committee (SANDAG)
Hasan Ikhata, Chief Executive Officer
Jhon Kirk General Counsel
Andre Douzdjian Chief Financial Officer
Melissa Coffelt, Director of Organizational Effectiveness
OIPA Filed
OIPA website