Draft FY 2021 Program Budget

Board of Directors Item 9 | March 27, 2020

TransNet Revenue Forecast

in Year of Collection Dollars (Nominal $)

- $29.3 Billion
- $18.1 Billion

Fiscal year:
- Actual revenue collected
- Preliminary SR 10
- Current forecast
TransNet Revenue Impact from Previous Recessions

COVID-19 Potential Impact by Sector

<table>
<thead>
<tr>
<th>Industry</th>
<th>As of 3-27-20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
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</tr>
<tr>
<td>Apparel</td>
<td>-75%</td>
</tr>
<tr>
<td>Department Stores</td>
<td>-50%</td>
</tr>
<tr>
<td>Furniture/Appliance</td>
<td>-50%</td>
</tr>
<tr>
<td>Drug Stores</td>
<td>+20%</td>
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<tr>
<td>Recreation Products</td>
<td>-80%</td>
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<tr>
<td>Florist/Nursery</td>
<td>-50%</td>
</tr>
<tr>
<td>Misc. Retail</td>
<td>+20%</td>
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<tr>
<td>Food Products</td>
<td></td>
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<tr>
<td>Food Markets</td>
<td>+30%</td>
</tr>
<tr>
<td>Restaurants</td>
<td>-75%</td>
</tr>
<tr>
<td>Liquor Stores</td>
<td>+20%</td>
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<tr>
<td>Transportation</td>
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<tr>
<td>Auto Parts/Repair</td>
<td>-50%</td>
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<tr>
<td>Auto Sales New</td>
<td>-75%</td>
</tr>
<tr>
<td>Auto Sales Used</td>
<td>-75%</td>
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<tr>
<td>Service Stations</td>
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<tr>
<td>Misc. Vehicle Sales</td>
<td>-80%</td>
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<tr>
<td>Construction</td>
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<tr>
<td>Materials Wholesale</td>
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<td>Materials Retail</td>
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<tr>
<td>Business to Business</td>
<td>-50%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>0%</td>
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</tbody>
</table>
COVID-19 TransNet Revenue Scenarios

COVID-19 Impact
- Pre COVID-19 Forecast
- COVID only ($29m loss)
- Moderate ($53m loss)
- Severe ($80m loss)
- Great Recession ($534m loss)

FY 2021 SANDAG Program Budget
By Program Type

- TransNet Program: $329 million (25.2%)
- Capital Projects: $859 million (65.3%)
- Board Budget: $0.56 million (0.04%)
- Office of the Independent Performance Auditor: $0.74 million (0.06%)
- Overall Work Program: $49 million (3.7%)
- Regional Operations and Services: $65 million (5.0%)

TOTAL $1.32 Billion*

*Includes annual regional funding of capital program. Administrative Budget of $18.7 million allocated to OWP, regional operations, and capital projects.
SANDAG’s Overall Authority, Responsibilities and Mandates

- Metropolitan Planning Organization (Federal)
- Intelligent Transportation Systems Architecture (Federal)
- Co-Lead Agency for Air Quality Planning (Federal and State)
- Regional Transportation Planning and Fund Allocation Agency (State)
- Otay Mesa East Toll Facility Act (State)
- Congestion Management Agency (State and Local)
- San Diego County Regional Transportation Commission (Local and Voter Approval)
- Council of Governments (Local)
- Regional Criminal Justice Clearinghouse (Local)

FY 2021 SANDAG Strategic Initiatives

Strategic Initiatives
- Implement organization effectiveness actions
- Modernize the agency’s supporting systems and technology
- Become a data-driven organization
FY 2021 SANDAG Priority Projects

**Priority Projects**
- San Diego Forward: The 2021 Regional Plan
- Del Mar Bluffs Stabilization
- Mid-Coast Trolley Project
- Navy Old Town Campus Revitalization / Central Mobility Hub
- Otay Mesa East Port of Entry and State Route 11

**Next Steps**

- **March 27, 2020: Board of Directors**
  Review and approve Draft FY 21 Program Budget
- **May 8, 2020: Executive Committee**
  Review and recommendation of proposed Final Program Budget
- **May 22, 2020: Board of Directors**
  Adopt proposed Final FY 21 Program Budget
Recommendation

The Board of Directors is asked to approve the Draft FY 2021 Program Budget and authorize distribution of the document to member agencies and other interested parties for review.
Assembly Bill 805 - IPA and State Mandate

SEC. 15. Section 132354.1 of the Public Utilities Code is amended to read:

(a) The board shall arrange for a post audit of the financial transactions and records of the consolidated agency to be made at least annually by a certified public accountant.

(b)(1) The audit committee shall appoint an independent performance auditor, subject to approval by the board, who may only be removed for cause by a vote of at least two-thirds of the audit committee and the board.

(2) The independent performance auditor shall have authority to conduct or to cause to be conducted performance audits of all departments, offices, boards, activities, agencies, and programs of the consolidated agency. The auditor shall prepare an audit plan and conduct audits in accordance therewith and perform those other duties as may be required by ordinance or as provided by the California Constitution and general laws of the state. The auditor shall follow government auditing standards. All officers and employees of the consolidated agency shall furnish to the auditor unrestricted access to employees, information, and records, including electronic data, within their custody regarding powers, duties, activities, organization, property, financial transactions, contracts, and methods of business required to conduct an audit or otherwise perform audit duties. It is also the duty of any consolidated agency officer, employee, or agent to fully cooperate with the auditor, and to make full disclosure of all pertinent information.

(3) The auditor shall have the power to appoint, employ, and remove assistants, employees, and personnel as deemed necessary for the efficient and effective administration of the affairs of the office and to prescribe their duties, scope of authority, and qualifications.

(4) The auditor may investigate any material claim of financial fraud, waste, or impropriety within the consolidated agency and for that purpose may summon any officer, agent, or employee of the consolidated agency, any claimant, or other person, and examine him or her upon oath or affirmation relative thereto. All consolidated agency contracts with consultants, vendors, or agencies will be prepared with an adequate audit provision to allow the auditor access to the entity’s records needed to verify compliance with the terms specified in the contract. Results of all audits and reports shall be made available to the public in accordance with the requirements of the California Public Records Act (Chapter 3.5 (commencing with Section 6250) of Division 7 of the Title 1 of the Government Code).
**Assembly Bill 805 - IPA and State Mandate**

**SEC. 19.** If the Commission on State Mandates determines that this act contains costs mandated by the state, reimbursement to local agencies and school districts for those costs shall be made pursuant to Part 7 (commencing with Section 17500) of Division 4 of Title 2 of the Government Code.

Note: A mandate is not funded until a test claim is filed. Once the TC is filed and approved, Perimeters and Guidelines must be drafted. Once drafted and approved the process moves to the Commission (DOF, SCO, Treasury, and Public) to appropriate and fund. SANDAG would then file for reimbursement on an annual basis.

**Important** to note that if a test claim is not filed by **April 1** of this year and accepted by the Commission, **SANDAG loses** all rights to file for future reimbursement. The potential funding stream is lost.

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**Background**

- The SANDAG Office of the Independent Performance Auditor (OIPA) is the official body of SANDAG to investigate allegations of potential fraud, waste, and abuse identified by SANDAG staff or other stakeholders.

- The OIPA serves as the SANDAG Board of Directors oversight (internal and external) function that proactively and objectively evaluates and recommends improvements to SANDAG including prioritizing its efforts by continuously facilitating an objective risk assessment. The OIPA's audit functions are designed to include timely reporting of significant issues to appropriate oversight authorities.
History

Since inception in 1980 (forty-years), SANDAG has not had enough internal auditors (1.5 FTE’s) for the organization to ensure a sufficient system of controls and adhere to applicable laws, rules, regulations and policies. SANDAG’s previous auditor reported directly to management and the audit plan was approved by management. Consequently, the skeletal staff had no independence and no ability to report risk to the Board. There was not an Audit Committee to submit audit findings that reached beyond management.

The last professional peer review performed under the Generally Accepted Government Auditing Standards identified that of the 24 projects performed over a three-year period, only seven were identified as audits; 17 were identified as non-audit services.

The impact of performing more non-audit services than audits is that the risk increases as fewer reviews involving operations and contracted services are performed and gives an appearance of impairment of an auditor’s independence.

What we’ve been up to (AC members and the IPA)

TWO MAIN AREAS OF FOCUS!

1. Set-up the Office of the Independent Performance Auditor
   - Developed Professional Auditing Policy and Procedural Manual (in accordance with GAGAS as required by AB805 and Professional Standards.)
   - Revised BP No. 039 (to incorporate professional auditing standards and best practices)
   - Planned and developed OIPA’s two-year business and audit plan
   - Managed the Audit Committee Agenda
   - Prepared the FY19/20 Budget and Proposed FY20/21 Budget
   - Relocated SANDAG’s Internal Audit Office to OIPA to bring more independence (1 FTE)
   - Hired the first Auditor (January of this year)
   - Prepared an analysis of audit resource needs (scheduled presentation to EC on Friday)
What we've been up to (AC members and the IPA)

Started April 2, 2019
Jan 2020 hired the first auditor

Today (10 months later)

TWO MAIN AREAS OF FOCUS!

2. Assessed Agency Risk (Holistic Approach)

• Studied to gain an understanding of SANDAG environment and inherent risk
• Developed BP No. 041 – Internal Control Standards (required by AB805 and State Controllers Office)
• Developed BP No. 042 – Reporting of Fraud, Waste, and Abuse Policy and Procedures (required by AB805)
• Went live with OIPA's webpage – where issued reports and the audit plan are made available to the public
• Went live with SANDAG’s Fraud, Waste, and Abuse webpage (performed and closed 2 complainant investigations)
• Developed a Risk Assessment Methodology (Training, Survey, Analysis, Report and Matrix)
  • Judgmentally and randomly selected a sample of 103 SANDAG staff (from all levels and areas within SANDAG to participate in the risk assessment process)
  • Provided risk brainstorming and system controls classes and one on one training for staff selected to participate
  • Administered a confidential risk survey
  • In the process of analyzing over 700 pages of survey responses and data analytics
  • Identified areas that of risk or hot spots “that keep staff and auditors up at night” around SANDAG and revised an updated audit plan, prioritizing audit engagements and identified the need for additional staffing resources based on assessed risk
• Performed an Organizational-wide Analysis of Efficiencies, Effectiveness, and Controls (Report finalized and issued Jan 2020)
• Risk Report and Risk Matrix – Tentative competition date May of 2020.

Risk

External Auditor scope is not holistic – Their focus is to ensure compliance of specific regulations or sets criteria. Having an independent office of auditors embedded in SANDAG can mitigate risk that are potential in SANDAG’s environment. It can respond to unanswered concerns from board members and increase public trust.

SANDAG is inherently risky as an organization by the nature of its responsibilities.

Other Risk factors.

• Capitol Projects – cost, over budget (dollar and/or time)
• Construction – bidding processes, adherence to contract, invoicing, tracking, etc.
• Consultants - bidding processes, adherence to contract, invoicing, tracking, etc.
• Operational – Use of SANDAG P-card, Travel, and other resources
• Forecasted Revenues and Projected Cost – review of assumptions and level of assumed risk
• Taxpayer Dollars – uses in fact and appearance
• Federal and State Funds – adherence to OMB and State Regs (monitoring, system controls, risk)
• State and Federal oversight requirements (continuous monitoring is required)
• Operational inefficiencies, waste, abuse of resources, etc.
• Inadequate system controls - safeguarding of assets, separation of duties, updated policies and procedures, management override, etc.

OIPA is the oversight body for the fraud, waste and abuse hotline recently created on the SANDAG website
Staff Resources – SANDAG vs. other Local Govt.

- Based on an analysis performed by OIPA, we confirmed that SANDAG has the largest dollar oversight per auditor of the total budget in our sample, by a considerable margin, when comparing the amount of dollar oversight responsibility per auditor in terms of both the total agency budget as well as exclusively the CIP budget.

- When looking at only San Diego agencies, staff found that SANDAG has more than $109 million oversight responsibility per auditor than the County of San Diego, nearly 3.75 times more than the city of San Diego, and nearly 19 times more than the Port of San Diego.

- When looking at dollar oversight responsibility per auditor of the CIP budget, SANDAG, compared to other San Diego agencies has approximately 91 times more dollar oversight responsibility per auditor than the Port of San Diego, 42 times more than the County of San Diego, and 13 times more than the City of San Diego.

- When looking at CIP using the number of CIP projects, SANDAG average number of per audit oversight responsibility by project is significantly higher than those compared. Leaving SANDAG open to many unaudited projects and potential loss to fraud, waste, and abuse.

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Staff Resources – SANDAG vs. Other Local Govt.

[Bar chart showing auditor oversight]
Staff Resources – SANDAG vs. Other Local Govt.

![Bar Chart: CIPs Projects per Auditor](image)

- SANDAG: 61.00
- County of SD: 14.18
- Sacramento County: 34.50
- City of San Francisco: 6.91
- City of San Jose: 78.14
- City of SD: 15.85
- County of Santa Clara: 6.76

Staff Resources – SANDAG vs. Other Local Govt.

![Bar Chart: Total Auditors Needed to be on Par with other Agencies](image)
Staff Resources – SANDAG vs. Other Local Govt.

Using the dollar responsibility per auditor statistics shown in the graphs, staff was able to calculate how many additional auditors SANDAG would need to hire to have the same level of CIP dollar oversight responsibility per auditor as other agencies given SANDAG’s budget; OIPA staff refers “on par” as being near equal with other agencies in terms of audit resources. For example, given SANDAG’s CIP budget of $925.7 million, for SANDAG to have the same CIP dollar responsibility per auditor as the City of San Diego, SANDAG would need to employ a total of 26 auditors on staff or an additional 24.

*OIPA is asking for additional 4 - Auditors and 1 - Admin Staff. Giving OIPA a total of 1-IPA, 6 - Auditors, and 1 - Admin Staff. Still well under the resources needed to be on par.*

OIPA Budget Perspective (Current vs. Proposed)

When comparing the current audit budget to SANDAG’s salaries and benefits, Graph F below shows the current auditing budget is $708,427 and only accounts for 1.36% of the total salaries and benefits of SANDAG’s $52,443,182. The current non-auditing salaries and benefits budget is $51,734,755.

(1.36% of total SANDAG Sal and Ben)

The graph below shows that the proposed auditing budget of $1,381,877 would only raise it to 2.70% of the total salaries and benefits of SANDAG’s $52,443,182.

(2.70% of total SANDAG Sal and Ben)
OIPA Budget - Currently Funded

Currently, the OIPA has the following previously funded positions. Based on the results of the analysis, the OIPA is lacking sufficient audit resources to lower SANDAG’s audit risk.

(1) Independent Performance Auditor (Admin, Leadership, Risk Facilitations, QC, and Training and Development responsibilities)
(2) Principal Management Internal Auditor (1 of which was previously the IA at SANDAG)
(2) Audit Interns

Other cost associated with training and development, professional dues, travel and licensing.

**Total Cost Currently Funded $708,427**

OIPA Budget – Proposed Resources and Staffing Needs

The Office of the Independent Performance Auditor requests **additional** audit resources in the form of the following positions:

(2) Associate Management Internal Auditors
(2) Management Internal Auditor (entry level audit position)
(1) Administrative Support

- Other cost associated with training and development, professional dues, travel and licensing.
- A one-time Contract amount not to exceed $100,000 for a data penetration consultant and to provide training to audit staff on continuous monitoring of SANDAG data banks.

**Proposed Increased Cost unfunded $673,450 ($573,450 after FY21)**

(Proposed funding source - State Mandated Funds, redirected SANDAG funds or as part of Federal Overhead).
OIPA – Proposed (Current + Proposed)

If approved, the OIPA would be sufficiently staffed, recognizing that even after the additional resources, OIPA would continue to fall below the average coverage of dollar oversight responsibility per auditor. If approved, the OIPA would be staffed as follows:

(1) Independent Performance Auditor (Admin, Leadership, Risk Facilitations, QC, and Training and Development responsibilities)
(2) Principal Management Internal Auditor
(2) Associate Management Internal Auditors
(2) Management Internal Auditor (entry level audit position)
(1) Administrative Support
(2) Audit Interns

Other cost associated with training and development, professional dues, travel and licensing.

Total OIPA Annual Budget FY21 $1,381,877 ($1,281,877 thereafter)

Current OIPA Organizational Chart

The OIPA is appointed for a 3 year – renewable term, reports directly to the Chair of the Audit Committee. The Audit Committee is made up of 5 members.
Potential Funding Sources

Total Additional Funding Needed

FY21 - $673,450
FY22 forward - $573,450

1. State Mandated Reimbursement Claim – It’s not too late APRIL 1
2. Redirected SANDAG funding
3. Federal Overhead Rate (If OIPA is currently identified in the ICRP, which is where audit resources are usually placed, the reimbursement derived would cover the current and also the proposed cost for additional audit resources).
Mandated Claims Process and take aways

1. Because AB805 created a state imposed mandate, filing a Mandated Test Claim by April 1, 2020 would also help to recover some or all of the OIPA cost. Filing a test claim does not obligate SANDAG to annually file a mandate reimbursement claim, but it does leave the door open. If a test claim is not filed by this date, the option for future mandate reimbursements for these cost are permanently lost.

2. If the state does not fund a mandate in a specific fiscal year, the costs claimed are accrued and are paid when funds are appropriated as long a claimed is filed annually. Further, the cost associated with compiling and filing the mandate is reimbursable as well.

3. Audit cost recovery vs risk – efficiencies, effectiveness, identification of fraud, waste, misuse or abuse would outweigh the cost of having a sufficiently staffed audit office.
Questions...

Thank you!