



Audit Committee Agenda

Friday, September 8, 2023

1:30 p.m.

Welcome to SANDAG. The Audit Committee meeting scheduled for Friday, September 8, 2023, will be held in person in the SANDAG Board Room. While Committee members will attend in person, members of the public will have the option of participating either in person or virtually.

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Vision Statement: Pursuing a brighter future for all

Mission Statement: We are the regional agency that connects people, places, and innovative ideas by implementing solutions with our unique and diverse communities.

Our Commitment to Equity: We hold ourselves accountable to the communities we serve. We acknowledge we have much to learn and much to change; and we firmly uphold equity and inclusion for every person in the San Diego region. This includes historically underserved, systemically marginalized groups impacted by actions and inactions at all levels of our government and society.

We have an obligation to eliminate disparities and ensure that safe, healthy, accessible, and inclusive opportunities are available to everyone. The SANDAG equity action plan will inform how we plan, prioritize, fund, and build projects and programs; frame how we work with our communities; define how we recruit and develop our employees; guide our efforts to conduct unbiased research and interpret data; and set expectations for companies and stakeholders that work with us.

We are committed to creating a San Diego region where every person who visits, works, and lives can thrive.

Audit Committee

Friday, September 8, 2023

Comments and Communications

1. Public Comments and Communications

Public comments under this agenda item will be limited to five public speakers. Members of the public shall have the opportunity to address the Audit Committee on any issue within the jurisdiction of the Audit Committee that is not on this agenda. Public speakers are limited to three minutes or less per person. If the number of public comments under this agenda item exceeds five, additional public comments will be taken at the end of the agenda.

2. Agency Report

Ray Major, SANDAG

Deputy Chief Executive Officer Ray Major will present an update on pertinent agency initiatives.

Discussion

3. Update - Office of the Independent Performance Auditor Activities

Mary Khoshmashrab, Independent Performance Auditor

The Independent Performance Auditor will present an update on the Office of the Independent Auditor's activities and other sharing events.

Discussion

+4. Approval of Meeting Minutes

Francesca Webb, SANDAG

The Audit Committee is asked to review and approve the minutes from its July 25, 2023, special meeting.

[Meeting Minutes](#)

Approve

Reports

+5. The Audit Committee's Need to Retain Independent Counsel

Mary Khoshmashrab, Independent Performance Auditor

The Audit Committee is asked to discuss obtaining independent counsel to support the Audit Committee and the Office of the Independent Performance Auditor.

[The Audit Committee's Need to Retain Independent Counsel](#)

Discussion/
Possible
Action

+6. Update on Independent Performance Auditor Recruitment

Audit Committee Public Members Bob Monson and Stewart Halpern

The recruitment subcommittee will present an update on discussions for the IPA recruitment.

[Update on IPA Recruitment](#)

Discussion/
Possible
Action

+7. Independent Performance Auditor's Risk Assessment Results and Considerations Report for FY 2023-2024

Mary Khoshmashrab, Independent Performance Auditor

The Audit Committee is presented this report as information and asked to

Discussion/
Possible
Action

approve forwarding the report to the Board of Directors as information.

[IPA's Risk Results and Considerations Report](#)

[Att. 1 - IPA's Risk Results and Considerations Report](#)

8. Member Comments

The Audit Committee members will be given an opportunity to make announcements and other comments.

9. Upcoming Meetings

The next Audit Committee meeting is scheduled for Friday, October 13, 2023, at 1:30 p.m.

10. Adjournment

Adjournment

+ next to an agenda item indicates an attachment

September 8, 2023

July 25, 2023, Meeting Minutes

Chair David Zito called the meeting of the Audit Committee to order at 10:00 a.m.

1. Public Comments/Communications

Public Members Stewart Halpern and Agnes Wong Nickerson had a few clarifying questions for Chair Zito regarding the compensation of the Independent Performance Auditor (IPA) prior to the impending hiring of a new IPA.

There were no public comments.

2. Agency Report

Chief Financial Officer Andre Douzdjian presented an update on key programs, projects, and agency initiatives, including SANDAG's receipt of more than \$260 million dollars from the California Transportation Commission; the receipt of a \$21.5 million grant from the Federal RAISE Program in collaboration with the City of Chula Vista; the allocation of \$5.2 million by Carlsbad, led by Councilmember Burkholder, to the elimination of the at grade LOSSAN rail crossing at Carlsbad Station; the reaching of a milestone regarding the Otay Mesa East Port of Entry; the partnership with Oceanside and the City of San Diego to launch 2 new neighborhood electric vehicle pilot services; and the receipt of more \$3.25 million from the U.S Department of Transportation's Federal Transit Administration for the San Ysidro Transit Center.

There were no public comments on this item.

Action: Discussion Only

3. Update - Office of the Independent Performance Auditor Activities

IPA Mary Khoshmashrab stated that she would be presenting updates with other agenda items later in the meeting.

There were no public comments on this item.

Action: Discussion only.

4. Approval of Meeting Minutes

There were no public comments on this item.

Action: Upon a motion by Vice Chair David Druker (Board Member) and a second by Bob Monson (Public Member), the Audit Committee voted to approve the meeting minutes from its June 9, 2023, and July 14, 2023, meetings.

Yes: Chair Zito, Vice Chair Druker, Agnes Wong Nickerson, Stewart Halpern, and Bob Monson.

No: None.

Abstain: None.

Absent: None.

Reports

5. Closed Session: Performance Evaluation of Independent Performance Auditor (Government Code Section 54957 (B)(1))

IPA Khoshmashrab mentioned that she would be comfortable with an open discussion regarding her performance review.

There were no public comments on this item.

There was no reportable action on this item.

6. Performance Evaluation and Potential Compensation Adjustment of Independent Performance Auditor

Chair Zito commended IPA Khoshmashrab for her due diligence and the work that she has done.

Agnes Wong Nickerson spoke about the results of the performance evaluation, the criteria/methods that were used to measure IPA Khoshmashrab's performance, the compensation adjustments for the IPA, and the subcommittee's recommended salary increase.

Bob Monson and Chair Zito asked questions regarding the subcommittee's recommended percentage increase.

Stewart Halpern questioned if the Audit Committee could view a table in public session that was from the closed session. Stewart Halpern also asked a clarifying question regarding the allocation and range of the salary increase.

CFO Douzdjian clarified and explained about the salary increase process and stated the average increase percentage will be 3%, taken from a pool allocated by the Board of Directors.

Chair Zito and CFO Douzdjian had a discussion around the metrics and factors that are used when deciding increases.

Stewart Halpern asked a question regarding IPA Khoshmashrab's current salary.

IPA Khoshmashrab responded and stated her current salary prior to the increases.

Stewart Halpern, CFO Douzdjian, and Chair Zito then discussed the categories that SANDAG employees are placed at regarding their performance, increases associated with performance, and the pay scale for their position.

Bob Monson stated his concern on giving IPA Khoshmashrab the average increase, considering her performance.

Chair Zito echoed the point about the pay scale and mentioned with a 4% increase it would be very close to the salary limit.

Deputy General Counsel Amberlynn Deaton then referenced the Board-approved budget which includes salary ranges and stated that the IPA salary range limit is \$257,697 based on fiscal year 2023 approved budget.

Chair Zito stated that a 4% increase would put IPA Khoshmashrab at the high end of the IPA pay scale.

Vice Chair Druker asked if the recommendation was final or if it went to the Board.

Chri Zito confirmed that the recommendation goes to the Board.

Agnes Wong Nickerson shared a table that compared the "Chief Auditor" positions at San Diego regional agencies.

Stewart Halpern and IPA Khoshmashrab mentioned that the positions are not necessarily comparable, due to the differing responsibilities.

Chair Zito stated that he would be comfortable with recommending a 4% increase to IPA Khoshmashrab's salary and commended IPA Khoshmashrab for all the work she has done.

There were no public comments on this item.

Action: Upon a motion by Chair Zito and a second by Bob Monson, the Audit Committee voted to recommend a 4% increase to IPA Mary Khoshmashrab's salary to be presented to the Board.

Yes: Chair Zito, Vice Chair Druker, Agnes Wong Nickerson, Stewart Halpern, and Bob Monson.

No: None.

Abstain: None.

Absent: None.

7. Office of the Independent Performance Auditor- Fourth Quarter Fraud, Waste, and Abuse Report for FY 2022-2023.

IPA Khoshmashrab updated the Committee on the status of the investigations and cases.

Stewart Halpern asked if the OIPA office had any staff pursuing the Certified Fraud Examiner credential.

IPA Khoshmashrab explained that two members of the current staff will take the exam in November.

There were no public comments on this item.

Action: Upon a motion by Bob Monson and a second by Vice Chair Druker, the Audit Committee voted to move the Fourth Quarter Fraud, Waste, and Abuse Report for FY 2022-2023 before the Board.

Yes: Chair Zito, Vice Chair Druker, Agnes Wong Nickerson, Stewart Halpern, and Bob Monson.

No: None.

Abstain: None.

Absent: None.

8. Office of the Independent Performance Auditor Summary of Audits and Recommendation and Status of Corrective Action Plans FY 2023

IPA Khoshmashrab updated the Committee on the status of corrective plans and indicated that only one was overdue and would later be removed.

Chair Zito commented on the usefulness of the report and commended the staff.

IPA Khoshmashrab stated that this is an annual report, but the OIPA office is reaching out and updating the corrective action sheet on a quarterly basis.

There were no public comments on this item.

Action: Upon a motion by Bob Monson and a second by Stewart Halpern, the Audit Committee voted to move the Summary of Audits and Recommendations and Status of Corrective Action Plans for FY 2023 before the Board.

Yes: Chair Zito, Vice Chair Druker, Agnes Wong Nickerson, Stewart Halpern, and Bob Monson.

No: None.

Abstain: None.

Absent: None.

9. Annual Risk Discussion Recommendation

IPA Khoshmashrab stated the purpose of these annual risk discussions, the importance of risk management/tolerance referring to Board Policy 42, and summarized the eight areas of concern from the risk discussions along with recommendations.

Bob Monson asked a clarifying question regarding a risk manager and the work they would do.

IPA Khoshmashrab explained the importance of a high-level risk manager.

Bob Monson inquired about how risks get addressed in the annual audit plan.

IPA Khoshmashrab explained that the risks that could be addressed from an audit perspective were included in next year's audit plan.

Agnes Wong Nickerson asked a question regarding the enterprise risk manager position.

IPA Khoshmashrab explained that it can be beneficial to have a risk manager outside of human resources that is separate and independent from management.

Stewart Halpern commented on the order of the risk assessment and audit plan and stated the risk assessment should be a prelude to the audit plan. Halpern also stated that there should be more discussion on the risks and recommendations from the report.

IPA Khoshmashrab indicated that traditionally there is not a risk report it is just documented discussions and then the audit plan is prepared. IPA Khoshmashrab indicated that these recommendations are simply from an audit perspective.

Stewart Halpern and Chair Zito discussed the language included in the annual risk report and the confusion around recommendations.

Chair Zito voiced his concern around optics, as bringing forward recommendations could make the Audit Committee look political.

IPA Khoshmashrab indicated that this report is going to the Board as an information item, and it is just the results of the risk discussion.

Stewart Halpern recommended avoiding language that makes the information in the report look like a formal recommendation as if there was an audit and that the Chair or Vice Chair present the report in the proper context.

Vice Chair Druker emphasized the Audit Committee's high influence regarding risk and stated that the Audit Committee does not have much influence over the risk of representation for smaller cities.

IPA Khoshmashrab stated that she would have the controversial item pulled from the document and have the verbiage changed for clarity.

Agnes Wong Nickerson stated that she would like to spend more time on some of the items mentioned.

Chair Zito restated that the Committee should avoid making a recommendation unless it can be tied back to the core scope of the auditing function of the organization.

Vice Chair Druker and IPA Khoshmashrab discussed the content of the report and the information within.

Stewart Halpern asked IPA Khoshmashrab if the recommendations could be omitted.

IPA Khoshmashrab stated that this summary is not a traditional process, and the information is not generally shared.

Chair Zito, Stewart Halpern, and IPA Khoshmashrab further discussed the language and the content of the summary.

Bob Monson stated that, in his prior experience as an auditor, he did not publish the findings of the risk assessment and that the report should be reviewed.

IPA Khoshmashrab stated that she would change the language to reduce any confusion and increase clarity.

Chair Zito and Bob Monson stated the need for clarity and concise language that the public cannot mistake.

Chair Zito and Deputy General Counsel Deaton discussed the language of Assembly Bill 805 (Gonzalez, 2017) and the weighted vote.

Agnes Wong Nickerson mentioned that it is important to include the opinions of the Board members in the summary.

There were no public comments on this item.

Action: Discussion/Possible Action.

10. Audit Committee's Need to Retain Independent Counsel

This item was postponed to the next meeting.

11. Member Comments

This item was postponed to a future meeting.

12. Upcoming Meetings

The next Audit Committee meeting is scheduled for Friday, August 11, 2023, at 1:30 p.m.

13. Adjournment

Chair Zito adjourned the meeting at 11:40 a.m.

Confirmed Attendance at SANDAG Audit Committee Meeting

July 25, 2023

Jurisdiction/Organization	Name	Member/ Alternate	Attended
Board Member	David Zito (Chair)	Primary	Yes
Board Member	David Druker (Vice Chair)	Primary	Yes
Public Member	Robert Monson	Primary	Yes
Public Member	Agnes Wong Nickerson	Primary	Yes
Public Member	Stewart Halpern	Primary	Yes
Board Member	Ed Musgrove	Alternate	No

DRAFT

September 8, 2023

Audit Committee’s Need to Retain Independent Counsel

Overview

California Assembly Bill AB 805 requires the creation of a new SANDAG Policy Advisory Committee, known as the Audit Committee, and an independent performance auditor (IPA) position. In efforts to maintain the independence of both the Committee and the IPA, the Audit Committee is being asked to discuss, with insight from the IPA, the need for independent counsel to represent the Committee and the Office of the Independent Performance Auditor (OIPA).

Action: Discussion/Possible Action

The Audit Committee is asked to discuss retaining independent counsel to support the Audit Committee and the Office of the Independent Performance Auditor.

Fiscal Impact:

Unknown

Schedule/Scope Impact:

FY 2024 forward

Key Considerations

California Assembly Bill AB 805 requires independence of the Audit Committee and the OIPA. AB 805, Section 132354.1.(b)(1) states “The audit committee shall appoint an independent performance auditor...” and Section 132354.1.(b)(2) further states “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 OIPA audits include auditing areas around SANDAG policies and activity performed, which may include policies and activity performed by the Office of the General Counsel (OGC). Currently, the OGC reports directly to the Chief Executive Officer, thus creating a conflict of interest and impairment when the OGC provides guidance or interpretation of audit related materials or matters to the Audit Committee or the OIPA.

Further, the Audit Committee is responsible for making recommendations to the SANDAG Board of Directors regarding the following:

- Hiring and oversight of SANDAG’s independent performance auditor.
- SANDAG’s annual audit plan.
- Selection and oversight of the firm to perform SANDAG’s annual financial statement audits; and
- Internal control guidelines for the agency.

The Audit Committee is also responsible for monitoring the implementation of any corrective actions arising from the audits. Therefore, as matters arise, there may be a need to obtain and consult with independent legal counsel for guidance and/or representation to the OIPA and the Audit Committee.

Next Steps

The Audit Committee members will discuss and possibly act to recommend that the board take action to allow the Committee, should the need arise, to retain independent counsel to represent the Committee and the OIPA on audit or other relative SANDAG matters. Further, the Board will direct SANDAG Management to initiate a solicitation (RFP) process, in collaboration with the Audit Committee, for the procurement of independent legal counsel to support the Audit Committee and the OIPA on an as-needed basis for audit related matters. The recommendation from the Audit Committee to the Board includes that the RFP requirements specify that the firm may not have previously engaged or consulted with/for SANDAG management within the past 5 years and include a clause in the contract/agreement stating that

the firm may not engage with SANGAG management while engaging with the AC/OIPA for conflict-of-interest reasons.

Once the Audit Committee acts to request that the Board direct Management to initiate the following items, SANDAG Management will be expected to present at the Audit Committee meeting for review and approval.

1. Initiate the RFP process for AC/OIPA independent legal counsel working jointly with an AC Ad Hoc Committee; and
2. Identify funding available for AC/OIPA independent legal counsel.

Mary Khoshmashrab, Independent Performance Auditor

Key Staff Contact: Mary Khoshmashrab, (619) 595-5323, mary.khoshmashrab@sandag.org

September 8, 2023

Update on Independent Performance Auditor Recruitment

Overview

In accordance with Assembly Bill 805 (Gonzalez, 2017) Sec 132351.4.(a)(5), the Audit Committee shall recommend to the board the contract of the firm conducting the annual financial statement audits and the hiring of the independent performance auditor and approve the annual audit plan after discussion with the independent performance auditor. Assembly Bill 805, Sec 132354.1.(b)(1) states that 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.

Action: Discussion/Possible Action

The recruitment subcommittee will present an update on discussions for the IPA recruitment.

Fiscal Impact:

None

Schedule/Scope Impact:

2024

Key Considerations

On April 14, 2023, the Audit Committee was asked to approve an Executive Search firm to conduct the IPA recruitment as well as authorize staff to enter contract negotiations with the preferred firm. The Executive Search firm, CPS HR Consulting, initiated the recruitment for the IPA, conducted interviews with the Audit Committee on July 14, 2023, and conducted final selection interviews with the Board of Directors (BOD) on July 21, 2023. A final selection of a candidate was made by the BOD after the final interviews were completed and staff was directed to enter into negotiations with the selected candidate.

Given this information, the Audit Committee will discuss any updates on the recruitment of the IPA and any possible action needed from the Audit Committee or the IPA recruitment Subcommittee to move the recruitment forward in an expeditious manner.

Next Steps

The Audit Committee Chair presents an update on the recruitment to the Executive Committee and/or the Board of Directors, based on the outcome of the discussion and any actions that arise from the Audit Committee.

Chair David Zito, Audit Committee Chair

Key Staff Contact: Mary Khoshmashrab, (619) 595-5323, mary.khoshmashrab@sandag.org

September 8, 2023

The Independent Performance Auditor’s Risk Assessment Results and Considerations Report for FY 2023-2024

Overview

As a result of the passing of Assembly Bill 1248 (Garcia) (AB 1248), The State Controller (SCO) has issued Internal Control guidelines that are applicable to local government; and includes assessment, monitoring, and mitigation of risk. AB 1248 is a bill that is designed to strengthen public confidence in that layer of government that most frequently touches their lives – local government. Board Policy 41 – Internal Control Standards incorporates this requirement which includes the Independent Performance Auditor’s (IPA), the Board, and Management’s responsibilities over organizational risk.

Action: Discussion/Possible Action

The Audit Committee is presented this report as information and asked to approve forwarding the report to the Board of Directors as information.

Fiscal Impact:

None

Schedule/Scope Impact:

None

Key Considerations

The IPA’s responsibilities include assessment of risk from an audit perspective and to facilitate and provide guidance to the Board of Directors (BOD) and Management around the consideration and mitigation of risk that are centered around potential risk themes.

Understanding the risk perspective at the governing level is the starting point and is part of a bigger process that includes gaining understanding of risk from an organization-wide perspective, from all levels within the organization, ensuring risk consideration from Management’s perspective and documenting those considerations. Lastly, the process assists the IPA in preparing for the upcoming year’s Annual Audit Plan as well as provides insight to the BOD and helps in the BOD’s decision-making process around SANDAG’s program objectives. The Office of the Independent Performance Auditor’s (OIPA) goal will be to address potential risk proactively, rather than reactively, by continuously monitoring and performing reviews.

The report is being provided to management, the BOD, and the Audit Committee as information only. The report is **not** an audit and the considerations provided are that of the IPA and **not** of the Audit Committee. The report is provided to the Audit Committee, who will be asked to discuss and forward to the BOD as information only, with **no** recommendation regarding the risks or considerations provided, due to the Audit Committee having limited authority regarding some of the risks identified. However, where the Audit Committee does have control, the Audit Committee and the IPA have addressed the matters by incorporating those considerations into the Annual Audit Plan. In some cases, where risks are not addressed in the Annual Audit Plan, the Audit Committee may entertain further discussion and consider making recommendations to the BOD.

Next Steps

The report will be posted to the OIPA webpage on the SANDAG website. The Audit Committee is asked to forward to the Board as information without the Audit Committee’s recommendation to act.

Mary Khoshmashrab, Independent Performance Auditor

Key Staff Contact: Mary Khoshmashrab, (619) 595-5323, mary.khoshmashrab@sandag.org

Attachment: 1. IPA’s Risk Results and Considerations Report.

To: Chair Zito
SANDAG Audit Committee
Board of Directors Chair Nora Vargas
SANDAG Board of Directors

From: Mary Khoshmashrab, MSBA, CFE, CPA
Independent Performance Auditor
Office of the Independent Performance Auditor

Subject: IPA's Risk Results and Considerations Report

Date: August 1, 2023

Each year the Independent Performance Auditor meets with Members of the Board of Directors, Audit Committee members, and Executive Management to discuss organizational risk.

The purpose of these discussions was to help Board, Audit Committee, and Executive Management consider and think about how they can develop a deeper knowledge of the risk oversight and risk management processes, while considering both the current state and desired future state of the organization.

When risk is discussed and assessed there are various risk themes that should be considered and includes budget risk, operational risk, information technology risk, financial risk, public value risk, fraud risk, regulatory and compliance risk, reputation, and political risk.

When risks are considered (e.g., what can go wrong, what keeps me up at night, and where is the sore spots) the response could be that the risk impact and occurrence is low, or it is being mitigated or the impact and occurrence is high and not being mitigated or somewhere in between. Further, when new risks arise or when there are many moving parts and/or unknown factors, one should look to see the "what if's" that could go wrong and if it does what is the impact. With this thought comes risk factors that should be continuously and closely monitored and could include the need for additional review or audits.

As the Independent Performance Auditor (IPA) my responsibilities include assessment of risk from an audit perspective and to facilitate and provide guidance to the Board and Management around the consideration and mitigate of risk that are centered around potential risk themes.

Understanding the risk perspective at the governing level is the starting point and is part of a bigger process that includes gaining understanding of risk from an organizational wide perspective and at all levels within the organization, ensuring management is considering risk from management's perspective and documenting that consideration. Lastly, the process assists



OFFICE OF THE INDEPENDENT PERFORMANCE AUDITOR

the IPA in preparing for the upcoming year's annual audit plan. The goal of the OIPA will be to get in front of potential risk and be proactive rather than reactive by continuously monitoring or performing reviews. The process also provides insight to Board Members and helps in the board's decision-making process around SANDAG's program objectives.

SANDAG Board Policy 41

This policy reflects and conforms to the Internal Control – ***Integrated Framework (2013) issued by the Committee on Sponsoring Organization of the Treadway Commission (COSO)***. Internal control is a process, effected by the Board of Directors, management, and other personnel, designed to provide reasonable assurance of financial accountability. The San Diego Association of Governments (SANDAG) management team and staff are responsible for fostering adequate internal controls to achieve accountability. The Board of Directors is responsible to approve policies that allow management and the IPA to carry out their responsibilities. The primary purpose of this publication is to establish internal control standards for SANDAG management and staff that are governed by the Board of Directors; risk assessment, monitoring and mitigation is part of this process and required by governing laws.

As a result of the passing of Assembly Bill 1248 (Garcia) (AB 1248), The State Controller (SCO) has issued Internal Control guidelines that are applicable to local government. "AB 1248 is a bill that is designed to strengthen public confidence in that layer of government that most frequently touches their lives – local government." The link below is provided for more information on the SCO's guidelines that support BP 41.

https://www.sco.ca.gov/Files-AUD/2015_internal_control_guidelines.pdf

According to the State Controller's Office and in accordance with AB1248, all Local Agencies, including Special Districts are required to following and adhere to ***The Committee on Sponsoring Organization of the Treadway Commission (COSO)***. COSO consists of a five elements of control standards and 17 principles shall be considered and adopted by all SANDAG management and staff around SANDAG operations.

The focus around risk is identified in the Element of Control number 2.

Risk Assessment – This refers to the process of identifying and analyzing the potential risks associated with the achievement of management objectives.

The following four principles shall be considered:

1. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.



2. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
3. The organization considers the potential for fraud in assessing risks to the achievement of objectives.
4. The organization identifies and assesses changes that could significantly impact the system of internal control.

This process should be documented and supported. Additionally, federal regulations around federal funds require that management consider, monitor, and mitigate risk for each major program that is funded. Evidence of this consideration and monitoring must be documented.

Board of Director's Responsibility:

The Board of Directors have the role of governing and thus are responsible for setting the "Tone" of the organization regarding risk. This is referred to as the Risk Tolerance or Risk Appetite.

Management's Responsibility:

On an annual basis management should have a risk discussion regarding their annual or overall objectives and associated risk, how they intend to mitigate and if it meets the tolerance level of the governing body. The risk tolerance should be discussed and established and documented for the year during this time.

Further, management should have a documented process in place that exhibits and supports the consideration of risk, risk impact, and mitigation of risk around each major project that comes to the board. Management's documentation should include how they ensure that they are within the risk tolerance set by the board.

Many government organizations employ a risk management position that reports directly to the CEO or Deputy CEO that's role is to continuously consider, monitor, and mitigate risk of the organization. This role is responsible for ensuring that the process is documented, and that the documentation is maintained in an organized manner.

Participation Results:

The IPA invited all primary voting members of the Board of Directors, the Audit Committee and the top six members of the executive management to have a risk discussion (CEO, 2 Deputy CEO's, General Counsel, CFO and Director of Organizational Effectiveness).

This year the participation was impressive with all except for one board member and all audit committee members participating. Additionally, three of the six members of the executive management invited participated. The discussions were scheduled for 30 min; however, most board members exceeded the scheduled times allotted with many discussions lasting anywhere



from 1 to 2 hours. The commitment to time and how it was exceeded shows the importance of this process to many of the Board members and Audit Committee members.

Results:

The outcomes were lengthy and included many areas of risk consideration. However, there were eight items, from an audit risk and organizational risk perspective that rose to the top. The following areas of risk may be further considered by the IPA for audit planning purposes.

The report is being provided to management, the Board, and the Audit Committee as information only. The report is **not** an audit and the considerations provided are that of the IPA and **not** the Audit Committee. The report is provided to the Audit Committee and the Audit Committee will be asked to discuss and forward to the Board of Directors as information only, with **no** recommendation regarding the risks or considerations provided due to the fact, that the Audit Committee has limited authority regarding some of the risk identified. However, where the Audit Committee does have control, the Audit Committee and the IPA have addressed the matter by incorporating the into the Annual Audit Plan. And, in some cases where risks are not addressed in the Annual Audit Plan, the Audit Committee may entertain further discussion and consider making recommendations to the Board of Directors.

1. Contracts and Purchase Cards – risk identified in the reports, ensuring that continuous auditing is done as well as the top ten contractors identified in Part I of the Contract and Procurement Audit Report should be reviewed fully.
2. Audit Committee and OIPA – independent legal support. The General Counsel (GC) currently reports to the CEO and is therefore part of management. Additionally, the OGC is under the umbrella of OIPA's audit oversight responsibilities regardless of the reporting structure and therefore impairment of independence and when matters involve the need for legal interpretation around audit findings, a conflict of interest would be a present since the GC is also responsible for the policies and interpretation of laws within the policies of the organization.
3. General Counsel Reporting Structure – The GC currently reports directly to the CEO, the CEO performs the GC's annual performance review and is responsible for any salary adjustments. Most government agencies at both the state and local level have the GC reporting (administratively and functionally) at the same level as the CEO and the Auditor, which is to the full board, thus removing any potential for retaliation by management and provides a full reporting to the highest level of the agency - the Board of Directors.
4. Management and Board Annual Risk Tolerance Discussion – Though some members of the Board stated that at times, management does have discussions that address risk, more members shared that they do not. All members confirmed there are no formal risk



- discussion that is documented or where risk tolerance levels are set by the Board; risk tolerance or risk appetite levels should be set by the governing board of an organization.
5. Management Consideration of Risk, Monitoring and Mitigation – In discussion with management it was shared that they do consider risk in areas of the organization but in a more informal manner that may or may not be documented. However, there is no formal process that defines the process and required documentation of the consideration of risk, monitoring and how risk is mitigated.
 6. Risk Management Position – For an organization with a material amount of funds from the state and federal government, given the inherent high risk of the organization including the number and dollar amount of contracted engagements, and results of the audit findings concerning lack of good system controls, the organization should have a Risk Management position; currently there is no official position that performs duties required around risk management.
 7. Organization of Board Material – Delivery of information is found to be tremendous and difficult for some cities that have little to no staff to review in a timely manner. Members did not feel there was a good summary that provides ALL options that were considered by management, why the option presented was selected, risk consideration, pro and cons, and risk impact for the option proposed.
 8. Small City Risk of Representation – Several members shared that due to the use of the weighted vote in accordance with AB805, many of the smaller cities have inadequate and unfair representation. Currently should the weighted vote be called, the vote of the County, City of San Diego and one more city would be the vote that stands, regardless of the voting results of the majority of the other 16 members.

IPA's Consideration:

1. Contracts and Purchase Cards – FY23/24 annual audit plan includes continuous auditing around contracts and procurement and the p-card. Additionally, the top ten contractors identified in Part I of the Contract and Procurement Audit Report are scheduled for a full review of the invoiced payments.
2. Audit Committee and OIPA – independent legal support. The GC should report directly to the BOD both administratively and functionally that would provide for greater independence for both the board and OIPA. When there is conflict regarding a legal interpretation of an audit finding from an OIPA report, there should be an independent counsel available. This can be accomplished by a on-call RFP process that is available on demand or if the matter is under \$5,000 an RFP process would not be required. Further, the legal counsel should be independent from SANDAG and had not worked on SANDAG matters in the prior 5 years and should be selected only by members of the AC.



OFFICE OF THE INDEPENDENT PERFORMANCE AUDITOR

3. General Counsel Reporting Structure - Most government agencies at both the state and local level have the GC reporting (administratively and functionally) at the same level as the CEO and the Auditor. The GC should report directly to the Board bringing more independence to the GC and GCO staff.
4. Management and Board Annual Risk Tolerance Discussion – Management should have a formal and documented annual risk discussion that includes meeting with all members of the board, and the Board defining the organization’s risk tolerance.
5. Management Consideration of Risk, Monitoring and Mitigation – Management should develop policy that formalizes procedures that define the process and required documentation of the consideration of risk, monitoring and how risk is mitigated.
6. Risk Management Position – The organization should employ a risk management position. The person employed should have experience in the Enterprise Risk Management (ERM) of a government organization. The position should report directly to the CEO or Deputy CEO. Further the position should include oversight of HR related matters when Human Resources are involved as part of a complaint.
7. Organization of Board Material – Management should consider providing a summary such as a fact sheet that provides information such as ALL options considered by management, why the option presented was selected, risk consideration, pro and cons, and risk impact and mitigation plan for the option proposed. The current depth of information should still be provided and available for members to drill down to more detail.
8. Small City Risk of Representation – Since the matter involves law and would require an amend to law, the IPA provides no consideration.

This concludes the results and recommendations of the Annual Audit Risk Discussion for Fiscal Year 23/24.

If you have any questions, please contact me.

Mary Khoshmashrab, MSBA, CFE, CPA
SANDAG’s Independent Performance Auditor
Mary.khoshmashrab@sandag.org

cc:
Board of Directors
Hasan Ikhata, CEO
Ray Major, Deputy CEO

September 8, 2023

July 25, 2023, Meeting Minutes

Chair David Zito called the meeting of the Audit Committee to order at 10:00 a.m.

1. Public Comments/Communications

Public Members Stewart Halpern and Agnes Wong Nickerson had a few clarifying questions for Chair Zito regarding the compensation of the Independent Performance Auditor (IPA) prior to the impending hiring of a new IPA.

There were no public comments.

2. Agency Report

Chief Financial Officer Andre Douzdjian presented an update on key programs, projects, and agency initiatives, including SANDAG's receipt of more than \$260 million dollars from the California Transportation Commission; the receipt of a \$21.5 million grant from the Federal RAISE Program in collaboration with the City of Chula Vista; the allocation of \$5.2 million by Carlsbad, led by Councilmember Burkholder, to the elimination of the at grade LOSSAN rail crossing at Carlsbad Station; the reaching of a milestone regarding the Otay Mesa East Port of Entry; the partnership with Oceanside and the City of San Diego to launch 2 new neighborhood electric vehicle pilot services; and the receipt of more \$3.25 million from the U.S Department of Transportation's Federal Transit Administration for the San Ysidro Transit Center.

There were no public comments on this item.

Action: Discussion Only

3. Update - Office of the Independent Performance Auditor Activities

IPA Mary Khoshmashrab stated that she would be presenting updates with other agenda items later in the meeting.

There were no public comments on this item.

Action: Discussion only.

4. Approval of Meeting Minutes

There were no public comments on this item.

Action: Upon a motion by Vice Chair David Druker (Board Member) and a second by Bob Monson (Public Member), the Audit Committee voted to approve the meeting minutes from its June 9, 2023, and July 14, 2023, meetings.

Yes: Chair Zito, Vice Chair Druker, Agnes Wong Nickerson, Stewart Halpern, and Bob Monson.

No: None.

Abstain: None.

Absent: None.

Reports

5. Closed Session: Performance Evaluation of Independent Performance Auditor (Government Code Section 54957 (B)(1))

IPA Khoshmashrab mentioned that she would be comfortable with an open discussion regarding her performance review.

There were no public comments on this item.

There was no reportable action on this item.

6. Performance Evaluation and Potential Compensation Adjustment of Independent Performance Auditor

Chair Zito commended IPA Khoshmashrab for her due diligence and the work that she has done.

Agnes Wong Nickerson spoke about the results of the performance evaluation, the criteria/methods that were used to measure IPA Khoshmashrab's performance, the compensation adjustments for the IPA, and the subcommittee's recommended salary increase.

Bob Monson and Chair Zito asked questions regarding the subcommittee's recommended percentage increase.

Stewart Halpern questioned if the Audit Committee could view a table in public session that was from the closed session. Stewart Halpern also asked a clarifying question regarding the allocation and range of the salary increase.

CFO Douzdjian clarified and explained about the salary increase process and stated the average increase percentage will be 3%, taken from a pool allocated by the Board of Directors.

Chair Zito and CFO Douzdjian had a discussion around the metrics and factors that are used when deciding increases.

Stewart Halpern asked a question regarding IPA Khoshmashrab's current salary.

IPA Khoshmashrab responded and stated her current salary prior to the increases.

Stewart Halpern, CFO Douzdjian, and Chair Zito then discussed the categories that SANDAG employees are placed at regarding their performance, increases associated with performance, and the pay scale for their position.

Bob Monson stated his concern on giving IPA Khoshmashrab the average increase, considering her performance.

Chair Zito echoed the point about the pay scale and mentioned with a 4% increase it would be very close to the salary limit.

Deputy General Counsel Amberlynn Deaton then referenced the Board-approved budget which includes salary ranges and stated that the IPA salary range limit is \$257,697 based on fiscal year 2023 approved budget.

Chair Zito stated that a 4% increase would put IPA Khoshmashrab at the high end of the IPA pay scale.

Vice Chair Druker asked if the recommendation was final or if it went to the Board.

Chri Zito confirmed that the recommendation goes to the Board.

Agnes Wong Nickerson shared a table that compared the "Chief Auditor" positions at San Diego regional agencies.

Stewart Halpern and IPA Khoshmashrab mentioned that the positions are not necessarily comparable, due to the differing responsibilities.

Chair Zito stated that he would be comfortable with recommending a 4% increase to IPA Khoshmashrab's salary and commended IPA Khoshmashrab for all the work she has done.

There were no public comments on this item.

Action: Upon a motion by Chair Zito and a second by Bob Monson, the Audit Committee voted to recommend a 4% increase to IPA Mary Khoshmashrab's salary to be presented to the Board.

Yes: Chair Zito, Vice Chair Druker, Agnes Wong Nickerson, Stewart Halpern, and Bob Monson.

No: None.

Abstain: None.

Absent: None.

7. Office of the Independent Performance Auditor- Fourth Quarter Fraud, Waste, and Abuse Report for FY 2022-2023.

IPA Khoshmashrab updated the Committee on the status of the investigations and cases.

Stewart Halpern asked if the OIPA office had any staff pursuing the Certified Fraud Examiner credential.

IPA Khoshmashrab explained that two members of the current staff will take the exam in November.

There were no public comments on this item.

Action: Upon a motion by Bob Monson and a second by Vice Chair Druker, the Audit Committee voted to move the Fourth Quarter Fraud, Waste, and Abuse Report for FY 2022-2023 before the Board.

Yes: Chair Zito, Vice Chair Druker, Agnes Wong Nickerson, Stewart Halpern, and Bob Monson.

No: None.

Abstain: None.

Absent: None.

8. Office of the Independent Performance Auditor Summary of Audits and Recommendation and Status of Corrective Action Plans FY 2023

IPA Khoshmashrab updated the Committee on the status of corrective plans and indicated that only one was overdue and would later be removed.

Chair Zito commented on the usefulness of the report and commended the staff.

IPA Khoshmashrab stated that this is an annual report, but the OIPA office is reaching out and updating the corrective action sheet on a quarterly basis.

There were no public comments on this item.

Action: Upon a motion by Bob Monson and a second by Stewart Halpern, the Audit Committee voted to move the Summary of Audits and Recommendations and Status of Corrective Action Plans for FY 2023 before the Board.

Yes: Chair Zito, Vice Chair Druker, Agnes Wong Nickerson, Stewart Halpern, and Bob Monson.

No: None.

Abstain: None.

Absent: None.

9. Annual Risk Discussion Recommendation

IPA Khoshmashrab stated the purpose of these annual risk discussions, the importance of risk management/tolerance referring to Board Policy 42, and summarized the eight areas of concern from the risk discussions along with recommendations.

Bob Monson asked a clarifying question regarding a risk manager and the work they would do.

IPA Khoshmashrab explained the importance of a high-level risk manager.

Bob Monson inquired about how risks get addressed in the annual audit plan.

IPA Khoshmashrab explained that the risks that could be addressed from an audit perspective were included in next year's audit plan.

Agnes Wong Nickerson asked a question regarding the enterprise risk manager position.

IPA Khoshmashrab explained that it can be beneficial to have a risk manager outside of human resources that is separate and independent from management.

Stewart Halpern commented on the order of the risk assessment and audit plan and stated the risk assessment should be a prelude to the audit plan. Halpern also stated that there should be more discussion on the risks and recommendations from the report.

IPA Khoshmashrab indicated that traditionally there is not a risk report it is just documented discussions and then the audit plan is prepared. IPA Khoshmashrab indicated that these recommendations are simply from an audit perspective.

Stewart Halpern and Chair Zito discussed the language included in the annual risk report and the confusion around recommendations.

Chair Zito voiced his concern around optics, as bringing forward recommendations could make the Audit Committee look political.

IPA Khoshmashrab indicated that this report is going to the Board as an information item, and it is just the results of the risk discussion.

Stewart Halpern recommended avoiding language that makes the information in the report look like a formal recommendation as if there was an audit and that the Chair or Vice Chair present the report in the proper context.

Vice Chair Druker emphasized the Audit Committee's high influence regarding risk and stated that the Audit Committee does not have much influence over the risk of representation for smaller cities.

IPA Khoshmashrab stated that she would have the controversial item pulled from the document and have the verbiage changed for clarity.

Agnes Wong Nickerson stated that she would like to spend more time on some of the items mentioned.

Chair Zito restated that the Committee should avoid making a recommendation unless it can be tied back to the core scope of the auditing function of the organization.

Vice Chair Druker and IPA Khoshmashrab discussed the content of the report and the information within.

Stewart Halpern asked IPA Khoshmashrab if the recommendations could be omitted.

IPA Khoshmashrab stated that this summary is not a traditional process, and the information is not generally shared.

Chair Zito, Stewart Halpern, and IPA Khoshmashrab further discussed the language and the content of the summary.

Bob Monson stated that, in his prior experience as an auditor, he did not publish the findings of the risk assessment and that the report should be reviewed.

IPA Khoshmashrab stated that she would change the language to reduce any confusion and increase clarity.

Chair Zito and Bob Monson stated the need for clarity and concise language that the public cannot mistake.

Chair Zito and Deputy General Counsel Deaton discussed the language of Assembly Bill 805 (Gonzalez, 2017) and the weighted vote.

Agnes Wong Nickerson mentioned that it is important to include the opinions of the Board members in the summary.

There were no public comments on this item.

Action: Discussion/Possible Action.

10. Audit Committee's Need to Retain Independent Counsel

This item was postponed to the next meeting.

11. Member Comments

This item was postponed to a future meeting.

12. Upcoming Meetings

The next Audit Committee meeting is scheduled for Friday, August 11, 2023, at 1:30 p.m.

13. Adjournment

Chair Zito adjourned the meeting at 11:40 a.m.

Confirmed Attendance at SANDAG Audit Committee Meeting

July 25, 2023

Jurisdiction/Organization	Name	Member/ Alternate	Attended
Board Member	David Zito (Chair)	Primary	Yes
Board Member	David Druker (Vice Chair)	Primary	Yes
Public Member	Robert Monson	Primary	Yes
Public Member	Agnes Wong Nickerson	Primary	Yes
Public Member	Stewart Halpern	Primary	Yes
Board Member	Ed Musgrove	Alternate	No

DRAFT

September 8, 2023

Audit Committee’s Need to Retain Independent Counsel

Overview

California Assembly Bill AB 805 requires the creation of a new SANDAG Policy Advisory Committee, known as the Audit Committee, and an independent performance auditor (IPA) position. In efforts to maintain the independence of both the Committee and the IPA, the Audit Committee is being asked to discuss, with insight from the IPA, the need for independent counsel to represent the Committee and the Office of the Independent Performance Auditor (OIPA).

Action: Discussion/Possible Action

The Audit Committee is asked to discuss retaining independent counsel to support the Audit Committee and the Office of the Independent Performance Auditor.

Fiscal Impact:

Unknown

Schedule/Scope Impact:

FY 2024 forward

Key Considerations

California Assembly Bill AB 805 requires independence of the Audit Committee and the OIPA. AB 805, Section 132354.1.(b)(1) states “The audit committee shall appoint an independent performance auditor...” and Section 132354.1.(b)(2) further states “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 OIPA audits include auditing areas around SANDAG policies and activity performed, which may include policies and activity performed by the Office of the General Counsel (OGC). Currently, the OGC reports directly to the Chief Executive Officer, thus creating a conflict of interest and impairment when the OGC provides guidance or interpretation of audit related materials or matters to the Audit Committee or the OIPA.

Further, the Audit Committee is responsible for making recommendations to the SANDAG Board of Directors regarding the following:

- Hiring and oversight of SANDAG’s independent performance auditor.
- SANDAG’s annual audit plan.
- Selection and oversight of the firm to perform SANDAG’s annual financial statement audits; and
- Internal control guidelines for the agency.

The Audit Committee is also responsible for monitoring the implementation of any corrective actions arising from the audits. Therefore, as matters arise, there may be a need to obtain and consult with independent legal counsel for guidance and/or representation to the OIPA and the Audit Committee.

Next Steps

The Audit Committee members will discuss and possibly act to recommend that the board take action to allow the Committee, should the need arise, to retain independent counsel to represent the Committee and the OIPA on audit or other relative SANDAG matters. Further, the Board will direct SANDAG Management to initiate a solicitation (RFP) process, in collaboration with the Audit Committee, for the procurement of independent legal counsel to support the Audit Committee and the OIPA on an as-needed basis for audit related matters. The recommendation from the Audit Committee to the Board includes that the RFP requirements specify that the firm may not have previously engaged or consulted with/for SANDAG management within the past 5 years and include a clause in the contract/agreement stating that

the firm may not engage with SANGAG management while engaging with the AC/OIPA for conflict-of-interest reasons.

Once the Audit Committee acts to request that the Board direct Management to initiate the following items, SANDAG Management will be expected to present at the Audit Committee meeting for review and approval.

1. Initiate the RFP process for AC/OIPA independent legal counsel working jointly with an AC Ad Hoc Committee; and
2. Identify funding available for AC/OIPA independent legal counsel.

Mary Khoshmashrab, Independent Performance Auditor

Key Staff Contact: Mary Khoshmashrab, (619) 595-5323, mary.khoshmashrab@sandag.org

September 8, 2023

Update on Independent Performance Auditor Recruitment

Overview

In accordance with Assembly Bill 805 (Gonzalez, 2017) Sec 132351.4.(a)(5), the Audit Committee shall recommend to the board the contract of the firm conducting the annual financial statement audits and the hiring of the independent performance auditor and approve the annual audit plan after discussion with the independent performance auditor. Assembly Bill 805, Sec 132354.1.(b)(1) states that 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.

Action: Discussion/Possible Action

The recruitment subcommittee will present an update on discussions for the IPA recruitment.

Fiscal Impact:

None

Schedule/Scope Impact:

2024

Key Considerations

On April 14, 2023, the Audit Committee was asked to approve an Executive Search firm to conduct the IPA recruitment as well as authorize staff to enter contract negotiations with the preferred firm. The Executive Search firm, CPS HR Consulting, initiated the recruitment for the IPA, conducted interviews with the Audit Committee on July 14, 2023, and conducted final selection interviews with the Board of Directors (BOD) on July 21, 2023. A final selection of a candidate was made by the BOD after the final interviews were completed and staff was directed to enter into negotiations with the selected candidate.

Given this information, the Audit Committee will discuss any updates on the recruitment of the IPA and any possible action needed from the Audit Committee or the IPA recruitment Subcommittee to move the recruitment forward in an expeditious manner.

Next Steps

The Audit Committee Chair presents an update on the recruitment to the Executive Committee and/or the Board of Directors, based on the outcome of the discussion and any actions that arise from the Audit Committee.

Chair David Zito, Audit Committee Chair

Key Staff Contact: Mary Khoshmashrab, (619) 595-5323, mary.khoshmashrab@sandag.org

September 8, 2023

The Independent Performance Auditor’s Risk Assessment Results and Considerations Report for FY 2023-2024

Overview

As a result of the passing of Assembly Bill 1248 (Garcia) (AB 1248), The State Controller (SCO) has issued Internal Control guidelines that are applicable to local government; and includes assessment, monitoring, and mitigation of risk. AB 1248 is a bill that is designed to strengthen public confidence in that layer of government that most frequently touches their lives – local government. Board Policy 41 – Internal Control Standards incorporates this requirement which includes the Independent Performance Auditor’s (IPA), the Board, and Management’s responsibilities over organizational risk.

Action: Discussion/Possible Action

The Audit Committee is presented this report as information and asked to approve forwarding the report to the Board of Directors as information.

Fiscal Impact:

None

Schedule/Scope Impact:

None

Key Considerations

The IPA’s responsibilities include assessment of risk from an audit perspective and to facilitate and provide guidance to the Board of Directors (BOD) and Management around the consideration and mitigation of risk that are centered around potential risk themes.

Understanding the risk perspective at the governing level is the starting point and is part of a bigger process that includes gaining understanding of risk from an organization-wide perspective, from all levels within the organization, ensuring risk consideration from Management’s perspective and documenting those considerations. Lastly, the process assists the IPA in preparing for the upcoming year’s Annual Audit Plan as well as provides insight to the BOD and helps in the BOD’s decision-making process around SANDAG’s program objectives. The Office of the Independent Performance Auditor’s (OIPA) goal will be to address potential risk proactively, rather than reactively, by continuously monitoring and performing reviews.

The report is being provided to management, the BOD, and the Audit Committee as information only. The report is **not** an audit and the considerations provided are that of the IPA and **not** of the Audit Committee. The report is provided to the Audit Committee, who will be asked to discuss and forward to the BOD as information only, with **no** recommendation regarding the risks or considerations provided, due to the Audit Committee having limited authority regarding some of the risks identified. However, where the Audit Committee does have control, the Audit Committee and the IPA have addressed the matters by incorporating those considerations into the Annual Audit Plan. In some cases, where risks are not addressed in the Annual Audit Plan, the Audit Committee may entertain further discussion and consider making recommendations to the BOD.

Next Steps

The report will be posted to the OIPA webpage on the SANDAG website. The Audit Committee is asked to forward to the Board as information without the Audit Committee’s recommendation to act.

Mary Khoshmashrab, Independent Performance Auditor

Key Staff Contact: Mary Khoshmashrab, (619) 595-5323, mary.khoshmashrab@sandag.org

Attachment: 1. IPA’s Risk Results and Considerations Report.

To: Chair Zito
SANDAG Audit Committee
Board of Directors Chair Nora Vargas
SANDAG Board of Directors

From: Mary Khoshmashrab, MSBA, CFE, CPA
Independent Performance Auditor
Office of the Independent Performance Auditor

Subject: IPA's Risk Results and Considerations Report

Date: August 1, 2023

Each year the Independent Performance Auditor meets with Members of the Board of Directors, Audit Committee members, and Executive Management to discuss organizational risk.

The purpose of these discussions was to help Board, Audit Committee, and Executive Management consider and think about how they can develop a deeper knowledge of the risk oversight and risk management processes, while considering both the current state and desired future state of the organization.

When risk is discussed and assessed there are various risk themes that should be considered and includes budget risk, operational risk, information technology risk, financial risk, public value risk, fraud risk, regulatory and compliance risk, reputation, and political risk.

When risks are considered (e.g., what can go wrong, what keeps me up at night, and where is the sore spots) the response could be that the risk impact and occurrence is low, or it is being mitigated or the impact and occurrence is high and not being mitigated or somewhere in between. Further, when new risks arise or when there are many moving parts and/or unknown factors, one should look to see the "what if's" that could go wrong and if it does what is the impact. With this thought comes risk factors that should be continuously and closely monitored and could include the need for additional review or audits.

As the Independent Performance Auditor (IPA) my responsibilities include assessment of risk from an audit perspective and to facilitate and provide guidance to the Board and Management around the consideration and mitigate of risk that are centered around potential risk themes.

Understanding the risk perspective at the governing level is the starting point and is part of a bigger process that includes gaining understanding of risk from an organizational wide perspective and at all levels within the organization, ensuring management is considering risk from management's perspective and documenting that consideration. Lastly, the process assists



the IPA in preparing for the upcoming year’s annual audit plan. The goal of the OIPA will be to get in front of potential risk and be proactive rather than reactive by continuously monitoring or performing reviews. The process also provides insight to Board Members and helps in the board’s decision-making process around SANDAG’s program objectives.

SANDAG Board Policy 41

This policy reflects and conforms to the Internal Control – ***Integrated Framework (2013) issued by the Committee on Sponsoring Organization of the Treadway Commission (COSO)***. Internal control is a process, effected by the Board of Directors, management, and other personnel, designed to provide reasonable assurance of financial accountability. The San Diego Association of Governments (SANDAG) management team and staff are responsible for fostering adequate internal controls to achieve accountability. The Board of Directors is responsible to approve policies that allow management and the IPA to carry out their responsibilities. The primary purpose of this publication is to establish internal control standards for SANDAG management and staff that are governed by the Board of Directors; risk assessment, monitoring and mitigation is part of this process and required by governing laws.

As a result of the passing of Assembly Bill 1248 (Garcia) (AB 1248), The State Controller (SCO) has issued Internal Control guidelines that are applicable to local government. “AB 1248 is a bill that is designed to strengthen public confidence in that layer of government that most frequently touches their lives – local government.” The link below is provided for more information on the SCO’s guidelines that support BP 41.

https://www.sco.ca.gov/Files-AUD/2015_internal_control_guidelines.pdf

According to the State Controller’s Office and in accordance with AB1248, all Local Agencies, including Special Districts are required to following and adhere to ***The Committee on Sponsoring Organization of the Treadway Commission (COSO)***. COSO consists of a five elements of control standards and 17 principles shall be considered and adopted by all SANDAG management and staff around SANDAG operations.

The focus around risk is identified in the Element of Control number 2.

Risk Assessment – This refers to the process of identifying and analyzing the potential risks associated with the achievement of management objectives.

The following four principles shall be considered:

1. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.



2. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
3. The organization considers the potential for fraud in assessing risks to the achievement of objectives.
4. The organization identifies and assesses changes that could significantly impact the system of internal control.

This process should be documented and supported. Additionally, federal regulations around federal funds require that management consider, monitor, and mitigate risk for each major program that is funded. Evidence of this consideration and monitoring must be documented.

Board of Director's Responsibility:

The Board of Directors have the role of governing and thus are responsible for setting the "Tone" of the organization regarding risk. This is referred to as the Risk Tolerance or Risk Appetite.

Management's Responsibility:

On an annual basis management should have a risk discussion regarding their annual or overall objectives and associated risk, how they intend to mitigate and if it meets the tolerance level of the governing body. The risk tolerance should be discussed and established and documented for the year during this time.

Further, management should have a documented process in place that exhibits and supports the consideration of risk, risk impact, and mitigation of risk around each major project that comes to the board. Management's documentation should include how they ensure that they are within the risk tolerance set by the board.

Many government organizations employ a risk management position that reports directly to the CEO or Deputy CEO that's role is to continuously consider, monitor, and mitigate risk of the organization. This role is responsible for ensuring that the process is documented, and that the documentation is maintained in an organized manner.

Participation Results:

The IPA invited all primary voting members of the Board of Directors, the Audit Committee and the top six members of the executive management to have a risk discussion (CEO, 2 Deputy CEO's, General Counsel, CFO and Director of Organizational Effectiveness).

This year the participation was impressive with all except for one board member and all audit committee members participating. Additionally, three of the six members of the executive management invited participated. The discussions were scheduled for 30 min; however, most board members exceeded the scheduled times allotted with many discussions lasting anywhere



from 1 to 2 hours. The commitment to time and how it was exceeded shows the importance of this process to many of the Board members and Audit Committee members.

Results:

The outcomes were lengthy and included many areas of risk consideration. However, there were eight items, from an audit risk and organizational risk perspective that rose to the top. The following areas of risk may be further considered by the IPA for audit planning purposes.

The report is being provided to management, the Board, and the Audit Committee as information only. The report is **not** an audit and the considerations provided are that of the IPA and **not** the Audit Committee. The report is provided to the Audit Committee and the Audit Committee will be asked to discuss and forward to the Board of Directors as information only, with **no** recommendation regarding the risks or considerations provided due to the fact, that the Audit Committee has limited authority regarding some of the risk identified. However, where the Audit Committee does have control, the Audit Committee and the IPA have addressed the matter by incorporating the into the Annual Audit Plan. And, in some cases where risks are not addressed in the Annual Audit Plan, the Audit Committee may entertain further discussion and consider making recommendations to the Board of Directors.

1. Contracts and Purchase Cards – risk identified in the reports, ensuring that continuous auditing is done as well as the top ten contractors identified in Part I of the Contract and Procurement Audit Report should be reviewed fully.
2. Audit Committee and OIPA – independent legal support. The General Counsel (GC) currently reports to the CEO and is therefore part of management. Additionally, the OGC is under the umbrella of OIPA's audit oversight responsibilities regardless of the reporting structure and therefore impairment of independence and when matters involve the need for legal interpretation around audit findings, a conflict of interest would be a present since the GC is also responsible for the policies and interpretation of laws within the policies of the organization.
3. General Counsel Reporting Structure – The GC currently reports directly to the CEO, the CEO performs the GC's annual performance review and is responsible for any salary adjustments. Most government agencies at both the state and local level have the GC reporting (administratively and functionally) at the same level as the CEO and the Auditor, which is to the full board, thus removing any potential for retaliation by management and provides a full reporting to the highest level of the agency - the Board of Directors.
4. Management and Board Annual Risk Tolerance Discussion – Though some members of the Board stated that at times, management does have discussions that address risk, more members shared that they do not. All members confirmed there are no formal risk

- discussion that is documented or where risk tolerance levels are set by the Board; risk tolerance or risk appetite levels should be set by the governing board of an organization.
5. Management Consideration of Risk, Monitoring and Mitigation – In discussion with management it was shared that they do consider risk in areas of the organization but in a more informal manner that may or may not be documented. However, there is no formal process that defines the process and required documentation of the consideration of risk, monitoring and how risk is mitigated.
 6. Risk Management Position – For an organization with a material amount of funds from the state and federal government, given the inherent high risk of the organization including the number and dollar amount of contracted engagements, and results of the audit findings concerning lack of good system controls, the organization should have a Risk Management position; currently there is no official position that performs duties required around risk management.
 7. Organization of Board Material – Delivery of information is found to be tremendous and difficult for some cities that have little to no staff to review in a timely manner. Members did not feel there was a good summary that provides ALL options that were considered by management, why the option presented was selected, risk consideration, pro and cons, and risk impact for the option proposed.
 8. Small City Risk of Representation – Several members shared that due to the use of the weighted vote in accordance with AB805, many of the smaller cities have inadequate and unfair representation. Currently should the weighted vote be called, the vote of the County, City of San Diego and one more city would be the vote that stands, regardless of the voting results of the majority of the other 16 members.

IPA's Consideration:

1. Contracts and Purchase Cards – FY23/24 annual audit plan includes continuous auditing around contracts and procurement and the p-card. Additionally, the top ten contractors identified in Part I of the Contract and Procurement Audit Report are scheduled for a full review of the invoiced payments.
2. Audit Committee and OIPA – independent legal support. The GC should report directly to the BOD both administratively and functionally that would provide for greater independence for both the board and OIPA. When there is conflict regarding a legal interpretation of an audit finding from an OIPA report, there should be an independent counsel available. This can be accomplished by a on-call RFP process that is available on demand or if the matter is under \$5,000 an RFP process would not be required. Further, the legal counsel should be independent from SANDAG and had not worked on SANDAG matters in the prior 5 years and should be selected only by members of the AC.



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3. General Counsel Reporting Structure - Most government agencies at both the state and local level have the GC reporting (administratively and functionally) at the same level as the CEO and the Auditor. The GC should report directly to the Board bringing more independence to the GC and GCO staff.
4. Management and Board Annual Risk Tolerance Discussion – Management should have a formal and documented annual risk discussion that includes meeting with all members of the board, and the Board defining the organization’s risk tolerance.
5. Management Consideration of Risk, Monitoring and Mitigation – Management should develop policy that formalizes procedures that define the process and required documentation of the consideration of risk, monitoring and how risk is mitigated.
6. Risk Management Position – The organization should employ a risk management position. The person employed should have experience in the Enterprise Risk Management (ERM) of a government organization. The position should report directly to the CEO or Deputy CEO. Further the position should include oversight of HR related matters when Human Resources are involved as part of a complaint.
7. Organization of Board Material – Management should consider providing a summary such as a fact sheet that provides information such as ALL options considered by management, why the option presented was selected, risk consideration, pro and cons, and risk impact and mitigation plan for the option proposed. The current depth of information should still be provided and available for members to drill down to more detail.
8. Small City Risk of Representation – Since the matter involves law and would require an amend to law, the IPA provides no consideration.

This concludes the results and recommendations of the Annual Audit Risk Discussion for Fiscal Year 23/24.

If you have any questions, please contact me.

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cc:
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