



THE OFFICE OF THE INDEPENDENT PERFORMANCE AUDITOR

January 28, 2022

Chair Blakespear
SANDAG Board of Directors

Audit Committee Chair Zito
SANDAG Audit Committee

Dear Chair Blakespear and Audit Committee Chair Zito:

Subject: Results – Purchase Card Operational and System Control Review for the period of July 1, 2017 to June 30, 2021

The objective of this engagement is to review SANDAG's management of purchase cards. Specific objectives are to review policies and procedures; evaluate internal controls over purchase cards to determine whether they exist, are being followed, and functioning effectively. Lastly, to test purchase card transactions to determine whether they are appropriate, allowable, and supported by adequate documentation.

The auditors did not perform an audit of relative financial statements or other financial data or provide an opinion regarding the financial statements in part or taken as a whole, and accordingly, we will not express such an opinion.

The review consists primarily of gaining an understanding of the relevant laws, rules, and regulations; inquiries and observations from management and staff, gaining an understanding of system controls, testing controls, and a review of purchase card processes and transactions.

A review does not provide assurance that we will become aware of all significant matters that would be disclosed in an audit.

The Office of Independent Performance Auditor's (OIPA's) office reviewed the purchase card process and system controls including testing transactions for the period of July 1, 2017 to June 30, 2021.

The audit was performed as part of the board approved annual audit plan. The Audit Plan is risk based and prioritized by the level of risk to an agency. Risk are considered

both in qualitative and quantitative perspectives.

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards, as required by federal and state governing code and under Assembly Bill 805. The purchase card review for public agencies often come with similar findings and therefore, many of the issued identified in the report may not be surprising and in fact may be recognizable from your own government organization's purchase card reviews. Also prevalent are the primary causes leading to the behavior.

As with prior audit reports performed by OIPA, the causes identified were primarily due to weaknesses in system controls, vaguely defined policies and procedures, and a need for employee training, especially around documenting.

The OIPA has been working proactivity with the Executive Director and SANDAG staff to provide guidance and help bring improvements to system controls and strengthen policies and training. We will continue to support Hasan and his desire to make SANDAG more successful.

Restricted use: Though this report is a public report, this report is intended solely for the information and use as determined by the SANDAG Chair and is not intended to be and should not be used by anyone other than the specified parties as determined by the SANDAG Chair.

The OIPA would like to thank the Chief Executive Officer, Hasan Ikhata and SANDAG management and staff. If you have additional questions, please contact me at (619) 595-5323 or mary.khoshmashrab@sandag.org.

Respectfully,



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

cc: Members of the Board of Directors
Members of the Audit Committee
Hasan Ikhata, Chief Executive Officer
John Kirk, General Counsel
Andre Douzdjian, Chief Financial Officer
OIPA Website and Files

Enclosure: Purchase Card Operational and System Control Review Report – Audit ID. 2022-03



Office of the Independent
Performance Auditor

PURCHASE CARD
OPERATIONAL AND SYSTEM
CONTROL REVIEW

AUDIT No. 2022-03

Independent Performance Auditor, Mary Khoshmashrab, MSBA, CPA

JANUARY 2022

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January 6, 2021

Report 2022-03

Fact Sheet

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PURCHASE CARD OPERATIONAL AND SYSTEM CONTROL REVIEW

The Office of the Independent Performance Auditors' Review Objectives

The objective of this engagement is to review SANDAG's management of purchase cards. Specific objectives are to review policies and procedures; evaluate internal controls over purchase cards to determine whether they exist, are being followed, and functioning effectively. Lastly, to test purchase card transactions to determine whether they are appropriate, allowable, and supported by adequate documentation.

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REVIEW FINDING HIGHLIGHTS

INADEQUATE PURCHASE CARD POLICIES AND PROCEDURES AND LACK OF SYSTEM CONTROLS

(Report Page no. 11)

Auditors found that SANDAG's procurement card policy is inadequate as it is not comprehensive and is missing components that are present in other government agencies' policies relevant to all public organizations. The policy does not address delegation of signature authority, email approvals of transaction logs, and payments through alternative payment service providers (PSPs). Auditors also noted that training on the policy is minimal resulting in personal purchase that

were left undetected. Additionally, based on test of controls performed during dual testing, system controls around the purchase card are lacking or not being followed.

THE PROCUREMENT CARD POLICY IS NOT CONSISTENTLY FOLLOWED

(Report page no. 15)

SANDAG's procurement card policy is not consistently being followed. Auditors noted that there are multiple cases of transaction logs missing the approver's signature, purchases of over the spending limit, split purchases in order to circumvent the purchase card limit of \$3,500 and spending more in a fiscal year with a single vendor than the procurement card policy allows. Auditors found enforcement of the purchase card procurement card policy is lacking with no documented consequences for failure to adhere to policy requirements, despite the policy stating consequences will be implemented.

AUDITORS NOTED IMPROPER, QUESTIONABLE, AND UNALLOWABLE PURCHASES

(Report page no. 17)

Transactional data showed purchases totaling over \$69,000 from local within the county and region restaurants and eateries during the review period. Auditors noted a transaction for an employee retreat exceeding the purchase card limit and violating the procurement policy regarding bid requirements that was charged to federal, state, and local funds. Auditors also noted purchases for gift cards, utilities, memberships, and other high-risk and unallowable types of purchases.

PURCHASES OF BOTH HARDWARE AND SOFTWARE USING PURCHASE CARDS (Report page no. 21)

Auditors noted many transactions for hardware and software purchases on the purchase card. In March of 2020, employees were allowed to telecommute due to the Covid-19 pandemic. Between March 13th and March 16th, four transactions totaling \$178,777 for laptops and devices necessary for working from home were purchased utilizing purchase cards. Hardware and software purchases are not explicitly disallowed by SANDAG procurement card policy; however, these transactions exceed the \$3,500 purchase card single purchase limit. Additionally, due to time constraints, the auditors did not perform procedures to determine if the equipment purchased were properly inventoried; additional procedures will be performed in a separate review and reported accordingly.

Mary Khoshmashrab, MSBA, CFE, CPA, **Independent Performance Auditor**

Staff:

Lloyd Carter, Auditor-in-Charge

Toufic Tabshouri, Principal Management Internal Auditor

Michael Ryan, Management Internal Auditor

REVIEW OBJECTIVES

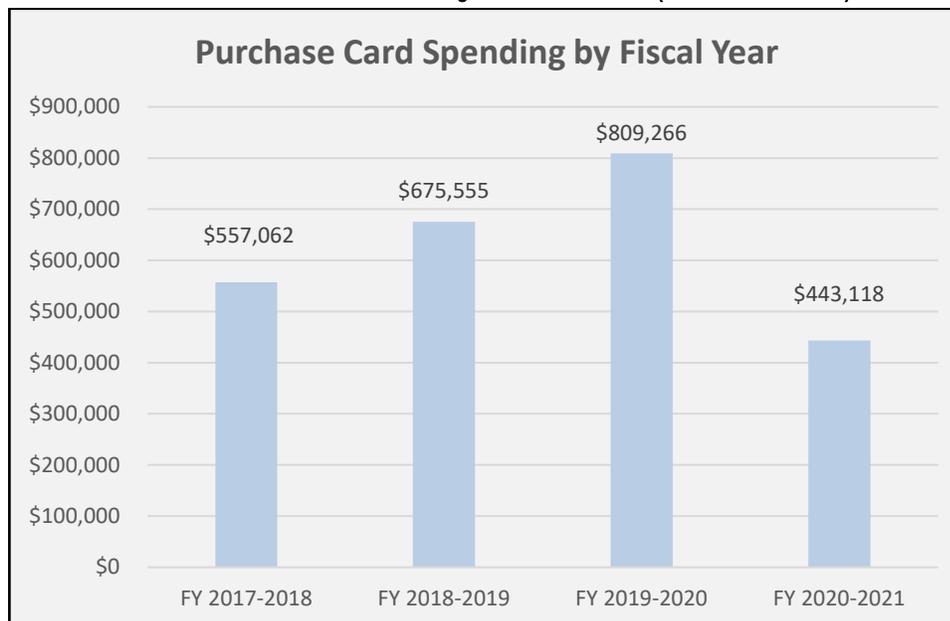
UNDERSTANDING SANDAG'S PURCHASE CARD PROGRAM

SANDAG has a purchase card program which is governed by a seven-page policy. The procurement card policy establishes requirements and processes for the program, including logging of transactions, reconciliation of logs with bank statements, approval of logs, and documentation of receipts. This program operates through the CAL-Card program, a statewide program administered by the California Department of General Services (DGS). DGS allows local government agencies to enroll and participate in the CAL-Card program, which contracts with a merchant bank.

At SANDAG, credit cards are authorized by the Finance Director and are issued directly to individual users by the merchant bank, currently U.S. Bank. Most of the cards are issued to administrative or other staff for departmental use, which entails making payments for many individual requestors within that department. From an internal control perspective, limiting the number of cards is prudent and far better than issuing an overabundance of purchase cards. However, the result of limiting the number of card holders is that the administrative staff that are issued purchase cards for departmental use have the burden of processing high volumes of transactions and have to contend with a fair amount of recordkeeping and after the fact justification.

Exhibit 1 shows the annual transaction volume for purchase cards during our audit period.

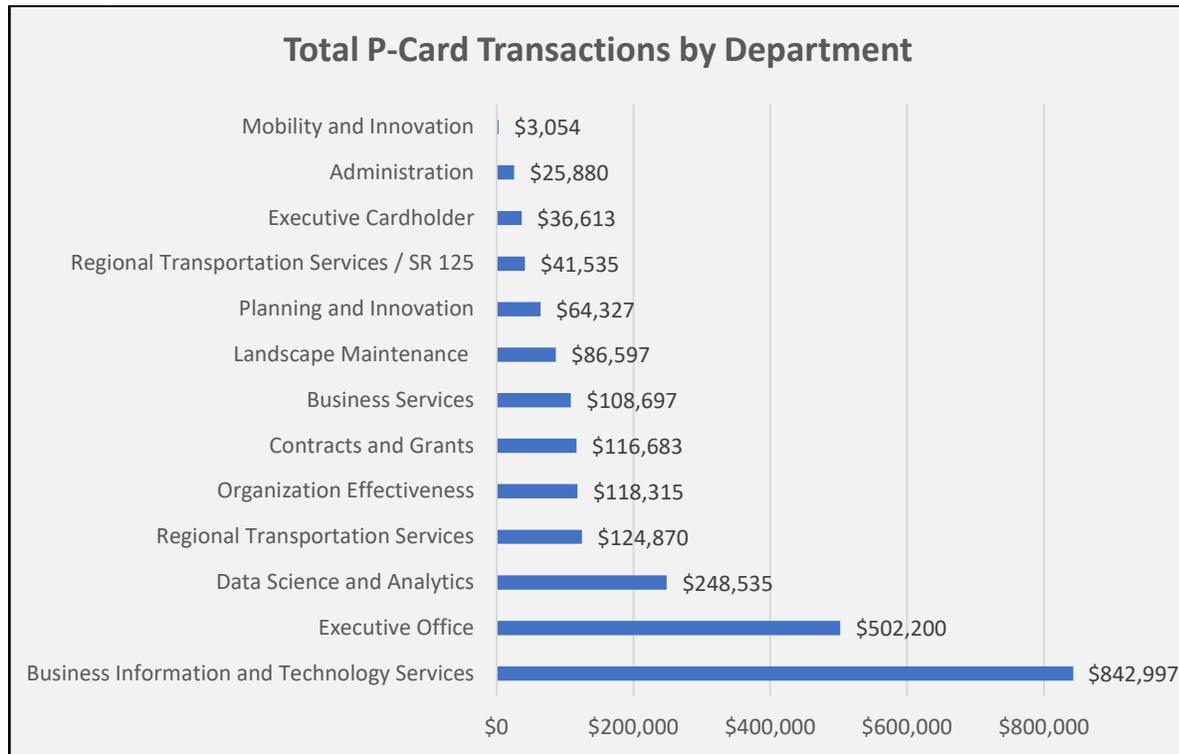
Exhibit 1 - Purchase Card Activity at SANDAG (Audit Period)



Source: Transactional Data provided to the OIPA

For the period of our audit, SANDAG had 15 to 20 active purchase cards at any point in time. While most departments were only authorized one purchase card, some were authorized two cards with one department being issued three cards. Exhibit 2 shows the transaction activity by cardholder department.

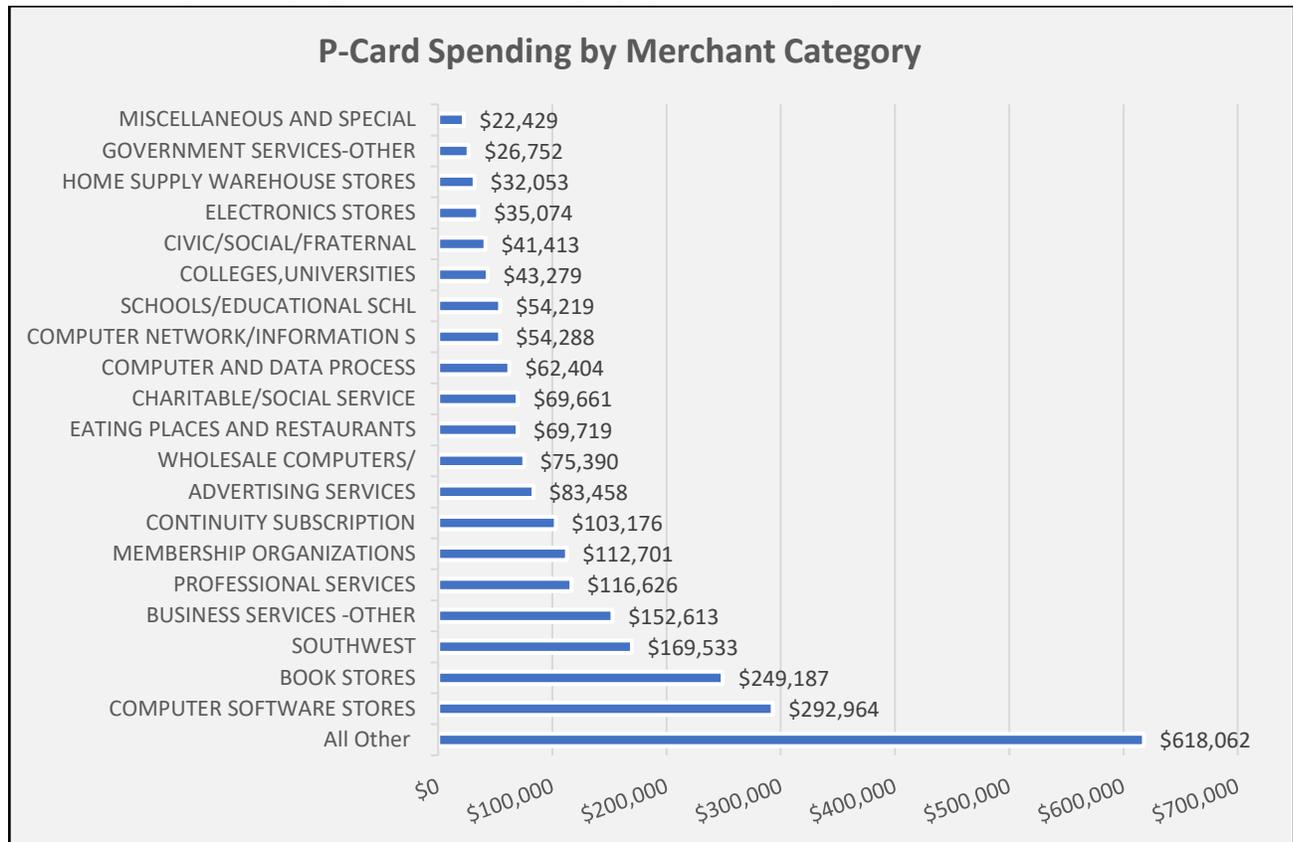
Exhibit 2 – Total Purchase card Purchase Card Amounts by Department (For Audit Period)



Source: Transactional Data provided to the OIPA

SANDAG cardholders use purchase cards for a wide variety of purchases, as shown in Exhibit 3 below. These categories are based on standard merchant codes and provide only a general view of spending categories, as many of the merchant codes (e.g., Electronics Stores and Computer and Data Process) are related.

Exhibit 3 – Spending By Merchant Category (Audit Period)



Source: Transactional Data provided to the OIPA

GENERAL REVIEW OBJECTIVES

The overall objective of this engagement is to review SANDAG's management of purchase cards. Specific objectives are to review policies and procedures; evaluate internal controls over purchase cards to determine whether they exist, are being followed, and functioning effectively; Lastly, to test purchase card transactions to determine whether they are appropriate, allowable, and supported by adequate documentation.

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REVIEW RESULTS

FINDING I – INADEQUATE PROCUREMENT CARD POLICIES AND PROCEDURES AND LACKING SYSTEM CONTROLS

The OIPA noted that SANDAG’s procurement card policy does not include several provisions that are present in other governmental agencies’ purchase card policies that must follow specific practices that are unique to all public organizations. Additionally, based on test of controls performed during dual testing, system controls around the purchase card are lacking or not being followed.

The Procurement Card Policy Does Not Address Delegation of Signature Authority

SANDAG’s purchase card policy does not address delegation of approval authority, so this is not explicitly prohibited. However, delegating approval authority for purchase card purchases increase the risks of noncompliance with purchase card policy, as delegates are unlikely to be trained on the purchase card policy. SANDAG managers commonly delegate authority to subordinates when they are not available, and they announce the delegation through an organization-wide email. However, a principal behind authority delegation is that the delegate has to be well trained and competent in the subject matter in order to properly exercise the authority delegated.

The Policy Does Not Address Email Approvals of Transaction Logs

Based on our sample selection, auditors found three instances where the approver of a transaction log failed to sign the log, rather instead approved the transaction via an email. While the purchase card policy does not address or prohibit email approvals, the emails requesting approval did not include any attachments with the supporting documentation for transaction logs. While such documentation can be voluminous, approval of logs without reviewing any support increases the risk that a purchased item may lack support or be unallowable.

Training on the Procurement card Policy is Minimal

Training on the purchase card policy entails providing a cardholder with a copy of the procurement card policy and then having the cardholder sign a statement attesting to having read the policy. Other government organizations conduct a training class on their purchase card policies and require periodic retraining.

The Procurement card Policy Does not Address Payments Through Alternative Payment Service Providers (PSPs)

Credit card payment transactions flow through a payment gateway, which is the infrastructure that connects a payment portal (e.g., a terminal where a credit card is

inserted or a web page) with the credit card's issuing bank. Although making payments through payment service providers such as PayPal or Venmo is not prohibited by SANDAG's procurement card policy, such payment methods are prohibited by purchase card policies of other government agencies due to the high risk of using such providers. PSPs provide a similar payment mechanism to a purchase card. Connecting a purchase card to a PSP simply adds a second layer (or middleman) between the customer and vendor. That second layer can obscure the true nature and purpose of goods and services purchased through alternative PSPs, because the supporting documentation consists of the PSP's monthly statement and may not identify the transaction details. Furthermore, while government entities negotiate a contract with the merchant bank issuing purchase cards, PSPs impose their terms and conditions on account holders and therefore paying through them may undermine any recourse the government entity may have with the merchant bank when disputed charges or other issues arise. Due to time constraints, auditors did not perform additional testing on the detailed PSP transactions.

Personal Charges Can Remain Undetected

Based on the sample selection¹, auditors noted three personal charges for items purchased through SANDAG Amazon and PayPal accounts. Two of these charges were identified by the cardholders themselves, who also provided credible explanations for their error and reimbursed SANDAG. The third charge was related to one of the other charges and was uncovered after the first charge was reported. These charges occurred because individuals have both personal and SANDAG accounts with these merchants, and login credentials are often automatically saved by websites. It is therefore easy to inadvertently charge a personal purchase to a SANDAG account without realizing it. SANDAG's procurement card policy lacks many of the elements that are found in other public organizations policies at the federal, state, and local government agency level. There is considerable variability in the size and level of detail included in purchase card policies. In general, the larger the government entity and the more complex its operations, the more elaborate the purchase card policy. For example, federal agencies and the State of California have more comprehensive purchase card policies than small cities. However, SANDAG's procurement card policy is missing basic elements that are found in the policies of many government purchase card policies that ensure consider good system controls, accountability, and transparency.

Weekend and Holiday Transactions

Auditors identified 802 transactions totaling \$197,538 that occurred on weekends and 124 transactions totaling \$49,165 that occurred on holidays, days where the holiday is observed (Christmas 2021 was observed on December 24th, 2021 for SANDAG for example), and both Black Friday and Cyber Monday in the purchase card transaction

¹ This sample selection is the same one that will be mentioned more in Finding III

data provided. Though weekend and holiday transactions are not explicitly disallowed, auditors deemed it necessary to test because these transactions occurred on non-working days. Auditors judgmentally selected a sample of 123 weekend transactions and 41 holiday transactions based on dollar amounts and where the transaction occurred. Using the purchase cards transaction logs, auditors determined if the transaction was supported and allowed, unsupported, supported but unallowed, or supported but unreasonable. A transaction was considered supported if the reconciliations showed a receipt, the transaction log sheet was signed, and there was a clear and/or stated reason for the transaction. A transaction is allowed if it does not violate the purchase card policies. And a transaction was considered reasonable if it is an allowable transaction based on the policy but was considered unreasonable based on the reason for the transactions, its cost, or both. For example, using a purchase card at a restaurant on a work trip (traveling outside the region) is an allowable transaction, but if the cost of the meal was quite expensive or exceeded the travel policy limit, that would be considered unreasonable. The following are notable results from the testing:

- A combined 18 transactions were missing one or more forms of support
- 6 transactions were missing some form of supporting documentation such as a receipt
- 12 transactions did not include a justification or an explanation for why a purchase card was used
- A combined 12 transactions were unallowable with the majority of them occurring at San Diego area restaurants
- Auditors noted 4 transactions that had proper support but could be considered unreasonable
- \$99.95 for a Target gift card for a monthly prize gift card²
- \$306.53 at the Kimpton Palomar Hotel for a one-night stay for an interview candidate
- \$1,250 spent on Target gift cards for “Survey Incentives”
- \$549.74 at Panera Bread for an “All Hands” staff meeting, and Draft Regional Plan debrief for all staff on May 29, 2021, however a large portion of SANDAG staff was still telecommuting and not in the main downtown office, though still within the San Diego Region and required to commute to the office for necessary business.

² Gift cards will be discussed more in depth in finding III

Exhibit 4 – Other Agencies’ Policy Elements vs. SANDAG’s

Policy Element	SANDAG Procurement card Policy
Logging of Transactions	✓
Reconciliation with Bank Statement	✓
Listing of specific purchase prohibitions	X
Initial training on procurement card policy	X
Annual training on procurement card policy	X
Related training on procurement policies	X
Sanctions against cardholders violating policy	✓
Use of analytical and exception reports	X
Pre-authorization of charges	X
Prohibition on circumventing procurement policies	✓
Prohibition on payment splitting	✓
Regular audits	X

SANDAG did not create a purchase card policy that addresses areas covered by purchase card policies of other government (public) agencies.

The vagueness of the purchase card policy creates a condition where some circumstances or questions are unaddressed, and individual cardholders or approvers end up making decisions as they see fit without having any official guidance or understanding of funding criteria such as Code of Federal Regulations (CFR), Internal Revenue Service (IRS), or other criteria that governs.

A policy that lacks detail and guidance increases the risk for both intentional and unintentional charges occurring, and transactions not being identified by SANDAG staff, as there are insufficient approval and oversight procedures in place to ensure that such transactions would be captured and identified.

RECOMMENDATIONS:

1. OIPA recommends that any delegates who approve purchases or transaction logs receive training on the procurement card policy and approver’s responsibilities.
2. OIPA recommends that the procurement card policy prohibit the approval of transaction logs by email or mandate that all supporting documentation be available digitally to the approver. The policy can allow approvers to designate a

permanent alternate approver or a temporary delegate who is trained on the procurement card policy and approver responsibilities to review and sign the transaction log.

3. OIPA recommends that the Finance Department develop a training session for SANDAG's procurement card policy. A session should include examples of improper use of purchase cards to make the training more relevant and comprehensible to the cardholder. These sessions can be recorded and viewed at the cardholder's convenience.
4. OIPA recommends that the Finance Department develop a policy on SANDAG's use of popular merchant accounts such as Amazon for business purposes, and to reduce the number of these accounts to the lowest possible number. The Finance Department may also consider establishing corporate accounts with some of these popular merchants through which all SANDAG business purchases are funneled in order to reduce the chance of inadvertent or intentional personal purchases.

FINDING II – THE PROCUREMENT CARD POLICY IS NOT CONSISTENTLY FOLLOWED

Auditors found many instances of noncompliance with the procurement card policy. In a sample of 44 items, auditors noted three cases where the transaction log was not signed by an approver.

For other purchases, there was no documentation of the receipt of goods ordered. SANDAG's procurement card policy requires that the *"Cardholder, Project Manager, or Department Director shall verify that any items or services purchased with the purchase card were received prior to sending the documentation to Finance for payment."*

SANDAG's procurement card policy explicitly disallows using purchase cards for individual purchases larger than \$3,500. There are no exceptions stated in the procurement card policy so even if the purchase was made during extraordinary circumstances, such as purchasing laptops for staff at the start of the Covid-19 pandemic³, it would still not be allowed. Auditors found a total of 34 total transactions over the \$3,500 limit. Additional review procedures will be performed and reported accordingly.

Split transactions or transaction splitting is the practice of breaking up a large single purchase into two or more smaller transactions. The reason a cardholder might do this is to attempt to circumvent the \$3,500 transaction limit. In order to test for potential

³ This will be discussed further in finding IV

split purchases, auditors isolated transactions that were made by the same person, from the same merchant, during the same cycle close date. It is difficult to prove the intent of the cardholder, however the following are some examples of likely potential split purchases that auditors found:

- 2 transactions made on the same day for a \$3,811 purchase of “Extensis”. One transaction was for \$3,000 and another for \$811 purchase
- 2 transactions one week apart for a total of \$3,671 for the same product, transceivers. The first transaction was \$1,575 and the second was for \$2,096
- 2 transactions on the same day from the same vendor, Vology Inc. for a total of \$4,324. It should be noted that the transaction log states that it is for two different products.

According to the SANDAG Procurement Credit Card Program, *“The aggregate purchase amount should not exceed the micro purchase threshold for a vendor per fiscal year. Purchases aggregating more than the micro purchase threshold in a fiscal year require a procurement via Contracts and the CMS”*. The micro purchase threshold, until late June 2021, was \$3,500, therefore the amount spent at a particular vendor in a fiscal year using a purchase card cannot exceed \$3,500. Auditors sorted data by Taxpayer Identification Number (TIN) vendors and totaled transactions by TIN by fiscal year instead. Auditors found 106 instances amongst 61 vendors where more than \$3,500 was spent in a single fiscal year. The micro purchase threshold limit was increased to \$10,000 in June of 2021 which is the end of our audit period. It should be noted that even if we use the current \$10,000 micro purchase threshold for the entire audit period rather than the \$3,500 limit, there would still be 25 instances amongst 12 vendors where more than \$10,000 was spent in a single fiscal year. Auditors also noted that merchants that had no TIN accounted for \$537,498 in purchase card spending.

Auditors found enforcement of the procurement card policy lacking and there are documented consequences imposed for failure to adhere to policy requirements despite the policy stating that consequences would be imposed.

Based on the auditor’s review, the absence of any evidence that reviews and approvals were consistently performed, in these cases, demonstrates that the most important controls in the procurement card policy are not followed or adhere to.

Based on the auditor’s review, absent documentation, compliance with the requirement to verify the receipt of items or delivery of services could not be ascertained.

RECOMMENDATION:

OIPA recommends strict enforcement of procurement card policy provisions. The Finance Department should track non-compliance by cardholder and develop a

mechanism for highlighting such noncompliance. A monthly listing provided to the Executive Director of cardholders who submitted their reconciliations after the deadline is an example of such a mechanism. Additionally, a quarterly report to the Board of the Directors and or the Audit Committee of non-compliance would exhibit accountability and transparency.

FINDING III – AUDITORS NOTED IMPROPER, QUESTIONABLE, AND UNALLOWABLE PURCHASES

Auditors noted improper, questionable, and unallowable purchases, the most notable of which fall into the following areas:

Auditors Found Regular Charges at Local Restaurants and Food Establishments

In all cases, these charges were supported by receipts, and the cardholder wrote in the transaction log that the purchases were for a business purpose. An initial sample of 44 transactions identified four material in dollar amount transactions from local food establishments, but a visual scan of the transaction logs on which these payments were recorded identified several more of such purchases. The total food establishment charges in the San Diego area under the merchant category codes “Eating Places and Restaurants”, “Fast Food Restaurants” and “Drinking Places (Alcohol)” are \$45,754, \$17,492, and \$5,884 respectively. For comparison, the total amount spent under those three merchant category codes are \$69,719, \$20,673, and \$6,660 respectively, meaning that the vast majority of charges at eating and drinking establishments were spent in the San Diego area and not associated with traveling outside the region for business or training events.

Payment of meals for employees creates a tax reporting requirement for SANDAG, as the IRS considers this value of these payments to be a taxable fringe benefit. Meal payments also create a tax liability for some recipients of the paid meals who are employees or board members.

Auditors Found Several Transactions for Purchases of Gift Cards

Although the awarding of gift cards during meetings that are conceived as employee morale or wellness events is not explicitly prohibited by SANDAG’s purchase card policy, gift cards are for personal use. For one, most gift cards were purchased from food establishments, which means that they are for personal use, which is prohibited by SANDAG policy. The main distinction may be that the beneficiary of the gift card is not the cardholder making the purchase but another SANDAG employee.

Gift cards should be accounted for, and someone should be assigned custody of them. While most gift card purchases auditors identified are in the amounts of \$10 or \$20, in our testing, auditors found 5 transactions for \$100 each for gift cards that did not provide a complete explanation on the transaction logs.

Recognizing employee efforts is an important function that should be undertaken by managers. Such acknowledgements may or may not include a financial award. Such acknowledgements recognize employees for outstanding work, performance that surpasses expectations, or simply for sustained contributions. Acknowledgement of employee contributions, particularly when done in writing, can be very impactful. In contrast, the awarding of gift cards in a raffle may be a fun activity but is otherwise of little value and is susceptible to abuse, absent strong controls.

Employee Retreat Costs Charged to Federal, State, and Local Funds

SANDAG held a staff retreat at a downtown San Diego hotel in December 2019. The cost of this retreat was paid in two installments, an initial deposit followed by a final payment. As documented in SANDAG's procurement requisition form, these costs were charged to Federal, State and local funds according to the following percentages:

- Federal Transit Administration – 13 %
- Federal Highway Works Administration – 24 %
- Other Federal – 10 %
- State of California – 12 %
- Local (TransNet and TDA) – 41%

Determining the legal allowability of this spending is complex because the various funders have different rules on such expenditures. Regardless of the legal allowability of this expenditure, SANDAG should have avoided spending public funds on a retreat and considered utilizing a free public venue instead. If no SANDAG facilities were suitable for this purpose, SANDAG could have sought a venue at one of its member government agencies.

Allowability is a low bar for a public agency such as SANDAG that is concerned with public image and that should be a good steward of public funds. Government agencies such as the Federal General Services Administration have suffered significant public backlash and negative press coverage as a result of holding such events. As a public agency, public service employees should consider both the appearance as well as the dollar amount when considering materiality.

Auditors Found Transactions for Utilities, Memberships, and Other Unallowable Purchases

There are types of purchases that are not allowed based on the policy regardless of the cost. These types of transactions include utilities, memberships and licenses, A&E services, and staff reimbursements. Auditors conducted supplementary tests on potentially high-risk transactions such as transactions that occurred on weekends and holidays, out of country transactions, Amazon transactions, IT transactions, and transactions that come out to round numbers (i.e., \$100.00, \$500.00, etc.). The sample

selections combined had 369 transactions, and auditors found 29 transactions or 7.86% that are prohibited based on that policy.

SANDAG's procurement card policy states that "Under no circumstances shall the card be used for personal purchases or cash advances." Although the procurement card policy does not define the word "personal," both a dictionary definition and a plain meaning interpretation suggest that purchases of food and beverage for consumption by a few individuals constitute personal purchases. Furthermore, the cardholder's written assertions that the purchases were for business-related purposes have no effect on their allowability.

The assertion that lunch or dinner payments were for a business-related purpose raises the threat of exposure to Brown Act violations. The California Brown Act is a law intended to promote transparency in government by providing public access to government meetings. It is a complex law, and a detailed discussion of it is beyond the scope of this review. However, the Brown Act prohibits discussions among board members regarding matters that may be before a governing body. This prohibition applies when the number of people engaged in such a discussion constitute a quorum, serial meetings with smaller number of board members can trigger a violation. Because the transaction logs did not indicate the subject matter of the discussions, auditors were unable to draw any conclusions or evaluate the risk further.

The purchase of gift cards is prohibited by procurement card policies of other government agencies because gift cards are considered a cash equivalent and require handling procedures to safeguard them. They should be accounted for, and someone should be assigned custody of them.

Regarding outside and independent meetings with consultants that lack proper documentation such as an agenda or other detail that provides the purpose of the meeting, presents potential risks, at minimum, an appearance of favoritism with consultants; due to time constraints, auditors did not perform audit procedures to determine the intent of these meeting.

Paid meals may also violate conflict of interest regulations promulgated by the California Fair Political Practices Commission (FPPC) for covered employees and board members, if the value of the meals exceeds a certain annual limit. That limit was \$500 in calendar year 2020. Violation of FPPC regulations can result in possible penalties.

While it is important not to overstate the potential ramifications of any noncompliance, it is also important to note that the IRS and FPPC may take a strict enforcement position when they find instances of non-compliance. They may impose fines or penalties without regard to whether the noncompliance was intentional or financially material or unintentional.

The SANDAG Employee Handbook states that no SANDAG employee “shall accept any favors, gifts (e.g., meals), or gratuities of significant value from persons, concerns, or corporations who have, or seek to have, contracts with SANDAG. Favors, gifts, or gratuities totaling less than \$50 annually from a person, concern, or corporation shall not be considered significant for purposes of SANDAG policy. Violation of this section may result in immediate termination of an employee”.

SANDAG Board policy 4 section 4.4.4 says board members can’t accept gifts of any kind from “anyone doing business with the Board under circumstances from which it could reasonably be inferred that such was intended to influence such person in their duties or as a reward for official action.”

California’s constitution Article XVI Public Finance [Section 1 - Sec. 23] specifically prohibits “gifts” of public resources, often referred to as the ban on “gift of public funds”. According to the Institute of Local Governments, it also applies to gifts from either an agency or its officials to private citizens or organizations, and since this ban is in California’s constitution, it applies to all public agencies except charter cities.

The Code of Federal Regulations (2 CFR Chapter 11) § 200.445 disallows the costs of goods or services for personal use of a non-Federal entity’s employees regardless of whether the cost is reported as tax able income to the employees.

The Internal Revenue Service (IRS) provides guidance on the treatment of meal payments, based on 26 U.S. Code §119. Most payments to employees⁴ are considered taxable wages unless an exception applies. For meals to be considered a nontaxable fringe benefit, they have to be provided on the premises of the employer and for the convenience of the employer. For example, providing sandwiches at long meetings would qualify, whereas inviting people to local restaurants for lunch would not.

Inconsistent enforcement of procurement card policies allowed for purchasing meals and beverages and may have been a longstanding practice at SANDAG, as the charges we noted extend through the entire audit period. Although this practice does not appear to be pervasive among purchase card holders, its persistence for years may have resulted in it being normalized and therefore not subject to scrutiny. Additionally, staff may be reluctant to question or challenge transactions for cardholders who are in senior management positions.

The customary purchase of meals for board members, employees, and other SANDAG partners has the potential to create reputational damage for SANDAG and erode public trust in the agency. Such damage can be significant and adversely impact SANDAG’s ability to execute its long-term plans, which depend on public support and voter

⁴ For wage tax calculations, the IRS considers board members the same as other government employees.

approval of measures such as local sales tax increases.

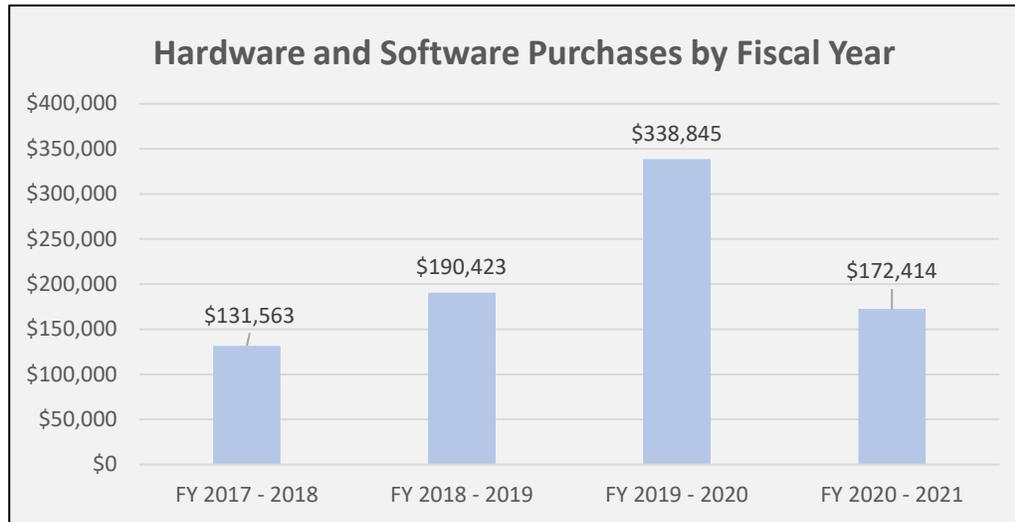
RECOMMENDATION:

1. The Finance Department should disallow the practice of purchasing meals at local establishments immediately, and the procurement card policy should be revised to explicitly reflect this prohibition.
2. The Finance Department should tally all improper purchase card charges and seek reimbursement of this amount from the responsible cardholder.
3. SANDAG should refrain from issuing purchase cards to individual cardholders and instead reimburse them for expenses. In cases where employees are unwilling or unable to bear the financial burden of paying with their personal funds for work-related purposes, SANDAG can advance funds or pay through a departmental card.
4. The Finance Department should evaluate any tax compliance issues that resulted from the purchase of meals for employees and board members at local restaurants. This entails tallying total payments for select individuals and making any required reports to the Internal Revenue Service. Individual recipients of paid meals should also be notified and advised to consult with their own tax advisors if they were not SANDAG employees.
5. SANDAG's General Counsel should evaluate the implications of paid meals to board members and any inadvertent violations of FPPC regulations and necessary filings. Covered individuals should be notified and also consult with their own ethics advisors.
6. The procurement card policy should be amended to explicitly prohibit the purchase of gift cards.
7. The Chief Financial Officer should examine this transaction and contact the relevant funding agencies for advice; SANDAG should reimburse any funds that are deemed unallowable.
8. The Board of Directors may want to consider creating a Board Policy that provides allowability of some of these transactions, with the understanding of the risk associated with allowing for activity that is considered unallowable by Federal and State funding agencies.
9. A monthly or quarterly listing provided to the Audit Committee or the Board of Directors of cardholders and transactions by user would be a good system control to put in place to encourage adherence to the policy and exhibit accountability and transparency.

FINDING IV – PURCHASES OF BOTH HARDWARE AND SOFTWARE USING PURCHASE CARDS

During the review the auditors noted that there were significant purchases of computer hardware or software using purchase cards, as shown in the exhibit below⁵:

Exhibit 5 - Hardware and Software Purchases by Fiscal Year



Auditors noted that in March of 2020 employees were allowed to telecommute due to the Covid-19 pandemic. Between March 13 and March 16, 2020, four transactions totaling \$178,777 for laptops and devices necessary for working from home were made utilizing purchase cards. Both hardware and software purchases can be costly and exceed the \$3,500 single purchase limit for purchase cards. Along with the four transactions mentioned previously, the following are more examples of hardware and software purchases exceeding the \$3,500 limit:

- \$7,498 for a renewal of “Progress Software”
- \$3,840 for the software “Loomly”
- \$3,563 for “Enterprise Solutions Hosting”

Payment for information technology hardware and software using purchase cards is prohibited by procurement policies of many government agencies such as the City of San Antonio and the City and County of San Francisco and the County of Yolo.

SANDAG’s purchase card policy is brief and has a general prohibition against purchases for personal use but does not otherwise provide a listing of prohibited items.

While the purchase card policies from other government agencies do not identify the rationale for this prohibition, there are several potential concerns regarding computer hardware and software procurements. For one, computer hardware is valuable and more susceptible to theft and personal use than other organizational assets and

⁵ Note that the figure for FY 2018-2019 differs by an immaterial amount from that in Exhibit 2, due to the way the data was filtered.

therefore requires more stringent controls over delivery and inventory. Procuring software through monthly subscription payments can obscure the cost of IT services. Additionally, placing subscriptions on a monthly payment schedule may cause inadvertent noncompliance with procurement limits if the total annual payments exceed \$3,500. Paying a monthly charge for a software subscription is essentially payment splitting, even if the intent is not to circumvent procurement policies.

It should be noted that due to time restrictions auditors were unable to include additional audit procedures to determine if equipment was properly inventoried. Additional audit procedures will be performed in a separate review and reported accordingly.

RECOMMENDATION:

SANDAG should revise its procurement card policy to limit or restrict payment for information technology hardware or software to the lowest level possible.

BACKGROUND, SCOPE, AND METHODOLOGY

AGENCY BACKGROUND AND CREATION OF THE OFFICE OF THE INDEPENDENT PERFORMANCE AUDITOR

Founded in 1980, San Diego Association of Governments (SANDAG) was created by local governments as a long-range planning agency within the San Diego County government as a state-authorized joint powers authority. Currently SANDAG is defined by the State Controller's Office as an Independent Special District. This public agency serves as the forum for regional decision-making. The agency builds consensus; makes strategic plans for the region; obtains and allocates resources; plans, engineers, and builds public transportation; conducts criminal justice research; and provides information on a broad range of topics pertinent to the region's quality of life.

SANDAG is governed by a Board of Directors composed of mayors, council members, and county supervisors from each of the region's 18 cities and County. Supplementing these voting members are advisory member representatives from Imperial County, the U.S. Department of Defense, California Department of Transportation, Metropolitan Transit System, North County Transit District, San Diego County Water Authority, San Diego Unified Port District, San Diego Regional Airport Authority, Southern California Tribal Chairmen's Association, and Mexico.

SANDAG currently has approximately 380 employees. The agency's program budget for fiscal year 2021-22 was \$1.13 billion. This budget includes \$52.1 million in projected costs for the overall work program, \$60.8 million for regional operations, and the annual portion of the capital program is projected to be \$686.7 million, of which \$317 million will be passed through to Caltrans District 11 and local agencies. The SANDAG financial outlook is tied to the health of the regional, state, national, and global economy. Economic performance can impact sales tax receipts and other sources of revenue that the agency depends on to carry out its projects and programs. Sales tax-based revenues such as Transportation Development Act and TransNet are a significant source of funding for both the Capital Program and the Overall Work Program (OWP).

On January 1, 2018, a new California Assembly Bill ([AB 805](#)) required the creation of the SANDAG Audit Committee, and an independent performance auditor (IPA) position. The Audit Committee is responsible for making recommendations to the SANDAG Board of Directors regarding the hiring and oversight of the work of the SANDAG independent performance auditor, the SANDAG annual audit plan, the external financial auditors for SANDAG, and internal control guidelines for the agency. The Audit Committee also is responsible for monitoring the implementation of any corrective actions arising from the audits. Prior to the creation of the Audit Committee and IPA, SANDAG had only 1.5 full-time equivalent internal audit positions reporting directly to

management.

SCOPE

The OIPA's office reviewed the purchase card transactions, processes and procedures for the period of July 1, 2017 to the June 30, 2021.

METHODOLOGY

The review of internal controls, including testing of controls, was performed. The procedures included gaining an understanding of the internal control structure including documenting the understanding of internal controls and the controls components to help plan the review and to determine the nature, timing, and extent of tests to be performed. Gaining an understanding of internal controls may consist of reviewing, verifying, interviewing, and identifying internal controls strengths and weaknesses by way of a questionnaire, narratives, flowcharting processes, and performing a walk-through of transactions as necessary, to develop appropriate auditing procedures. Test of Controls included dual testing to determine if controls were in place and being followed.

Additionally, auditors followed procedures in accordance with SAS No. 122 and with SAS No. 99 that included performing a brainstorming session regarding potential fraud as it relates to the audit and document the process.

The substantive audit procedures (dual testing) consisted of an examination of the evidence that supports the recording, authorizing, and approving; reviewing and reporting; and the monitoring and maintenance processes and procedures relevant to the review. The examination entailed testing, on a sample basis, a portion of the population of transactions and the controls around the process.

Auditors' consideration of audit risk and materiality is a matter of professional judgment. There are quantitative and qualitative elements to consider when establishing a materiality factor, including risk of fact and appearance.



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Metropolitan Transit System
North County Transit District
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San Diego County Water Authority
Southern California Tribal Chairmen's Association
Mexico

January 25, 2022

TO: Mary Khoshmashrab, Independent Performance Auditor
FROM: Hasan Ikhata, Chief Executive Officer
SUBJECT: Management Response to the OIPA Purchase Card Operational and System Control Review

On behalf of the SANDAG Management Team, thank you for the opportunity to respond to the Office of the Independent Performance Auditor's (OIPA's) report pertaining to the Purchase Card Operational and System Control Review (audit), for the period of July 1, 2015 to June 30, 2021.

SANDAG Management has reviewed the draft audit report and takes no exception to the findings. Management intends to address all findings identified by OIPA and has drafted an Action Plan (see Attachment 1). The Plan describes the follow-up actions Management will undertake, including development and implementation of a revised Purchase Card Policy that will improve processes, procedures, and controls and provide a framework for strengthening the agency's Purchase Card program. Actions to start implementing the recommendations have been initiated.

The SANDAG Management Team firmly believes that continuous improvement is important for the agency and appreciates the ongoing support and cooperation provided by OIPA. We share the mutual goal of organizational efficiency, transparency, and success and look forward to collaborating in response to the Purchase Card Audit.

Please contact me with any questions regarding the information provided.

Sincerely,

HASAN IKHRATA
Chief Executive Officer

Attachment 1: Purchase Card Audit - Proposed Action Plan

PROPOSED ACTION PLAN FOR IMPLEMENTING THE PURCHASE CARD OPERATIONAL AND SYSTEM CONTROL REVIEW RECOMMENDATIONS

The SANDAG Office of the Independent Performance Auditor (OIPA) completed a Purchase Card Operational and System Control Review (audit) in January 2022.

The audit resulted in 16 recommendations for consideration by SANDAG Management. The recommendations fall into the following three categories: Inadequate Procurement Card policies and procedures; Procurement Card policy not consistently followed; and Improper, questionable, and unallowable purchases including the purchase of hardware and software. Management intends to address the proposed recommendations as part of the agency’s commitment to continual improvement and to support the highest levels of organization performance. Actions to start implementing the recommendations have been initiated.

This proposed Action Plan (Plan) has been prepared by Management in response to the recommendations identified in the audit report and summarizes the actions SANDAG intends to undertake. Periodic progress updates shall be reported.

Finding I Recommendations

Inadequate Procurement Card Policies and Procedures and Lacking System Controls:

OIPA Recommendation	Proposed Action	Responsible Official	Estimated Date of Completion
1. P card delegates who approve purchases or transactions logs receive training on procurement card policy and approver responsibilities	Following implementation of a revised SANDAG Purchase Card Policy, Management shall provide regular training to all employees with responsibilities associated with the Purchase Card Program, including those who approve purchase transactions, to ensure awareness of expectations, consequences for non-compliance, and understanding of processes and procedures.	Chief Financial Officer and Director of Organization Effectiveness	June 30, 2022
2. P card policy revised to prohibit the approval of transaction logs by email or mandate that all supporting documentation be available digitally to the approver.	Management shall revise the SANDAG Purchase Card Policy to establish effective control mechanisms, including expectations for the submittal and approval of transaction logs, and related processes and procedures.	Chief Financial Officer and Director of Organization Effectiveness	April 30, 2022

OIPA Recommendation	Proposed Action	Responsible Official	Estimated Date of Completion
3. Develop training to support the P card policy.	Consistent with Action Item I.1 described above, Management shall provide regular training to all employees with responsibilities associated with the Purchase Card Program.	Chief Financial Officer and Director of Organization Effectiveness	June 30, 2022
4. Develop a policy related to SANDAG's use of popular merchant accounts such as Amazon for business purposes or establishing corporate accounts for merchants utilized frequently.	<p>Management shall evaluate options for establishing corporate accounts for frequently used merchants and develop appropriate policies and procedures.</p> <p>Further, the SANDAG Purchase Card Policy will be revised to establish expectations for the use of purchase cards at frequently utilized merchants, including related processes and procedures.</p>	Chief Financial Officer and Director of Organization Effectiveness	April 30, 2022

Finding II Recommendations

The Procurement Card Policy is Not Consistently Followed:

OIPA Recommendation	Proposed Action	Responsible Official	Estimated Date of Completion
1. The Finance Department should track non-compliance by card holder and develop a mechanism for highlighting non-compliance.	Management shall revise the SANDAG Purchase Card Policy to include control mechanisms, such as tracking and reporting non-compliance by Purchase Card holders on a regular basis, and establish related processes and procedures.	Chief Financial Officer and Director of Organization Effectiveness	April 30, 2022
2. Report non-compliance to Board of Directors or Audit Committee on a quarterly basis	Management shall revise the SANDAG Purchase Card Policy to include control mechanisms, such as reporting non-compliance to the Chief Financial Officer and Chief Executive Officer, and establish related processes and procedures.	Chief Financial Officer and Director of Organization Effectiveness	April 30, 2022

Finding III Recommendations

Improper, Questionable, and Unallowable Purchases:

OIPA Recommendation	Proposed Action	Responsible Official	Estimated Date of Completion
1. Finance Department should disallow the practice of purchasing meals at local establishments immediately. P card policy should be revised to explicitly exclude this type of transaction.	Management shall revise the SANDAG Purchase Card Policy to clarify allowable purchases, such as business meals, and establish related processes and procedures.	Chief Financial Officer and Director of Organizational Effectiveness.	April 30, 2022
2. Finance Department should tally all improper purchase card charges and seek reimbursement of this amount from the responsible cardholder.	Management shall review and evaluate any instances of improper use of the SANDAG Purchase Cards and take corrective action if deemed necessary.	Chief Financial Officer and Director of Accounting and Finance	June 30, 2022
3. SANDAG should refrain from issuing purchase cards to individual card holders and instead reimburse them for expenses. Instead, issue a departmental card or reimburse individuals through expense process.	Management shall revise the SANDAG Purchase Card Policy to clarify practices for the issuance of Purchase Cards and establish related processes and procedures.	Chief Financial Officer and Director of Organization Effectiveness	April 30, 2022
4. The Finance Department should evaluate any tax compliance issues that resulted from the purchase of meals for employees and board members at local restaurants. Follow a tally of total payments for select individuals and make a report to the IRS. Individuals that were recipients of paid meals should be notified so that they can consult with their personal tax advisors if they were not SANDAG employees.	Management shall review and evaluate past transactions related to the purchase of business meals for employees and Board members for possible tax implications and undertake corrective action if deemed necessary.	Chief Financial Officer and Director of Accounting and Finance	June 30, 2022

OIPA Recommendation	Proposed Action	Responsible Official	Estimated Date of Completion
5. SANDAG General Counsel should evaluate the implications of paid meals to board members and any inadvertent violations of FPPC regulations and necessary filings.	Management shall review and evaluate past transactions related to the purchase of business meals relative to the Fair Political Practices Commission (FPPC) regulations and undertake corrective action if deemed necessary.	General Counsel and Chief Financial Officer	June 30, 2022
6. Procurement card policy should be amended to explicitly prohibit the purchase of gift cards.	Management shall revise the SANDAG Purchase Card Policy to clarify allowable and non-allowable purchases, such as gift cards, and establish related processes and procedures.	Chief Financial Officer and Director of Organization Effectiveness	April 30, 2022
7. CFO should examine P Card transaction of purchasing gift cards. Compare practice with other agencies and reimburse any funds that are deemed unallowable.	Management shall review and evaluate past transactions related to the purchase of gift cards and undertake corrective action if deemed necessary.	Chief Financial Officer and Director of Accounting and Finance	June 30, 2022
8. The Board should consider creating a Board Policy clarifying allowability of utilizing P cards for business meals and gift cards and other transactions.	Management shall discuss creation of a Board Policy related to authorized Purchase Card transactions, including business meals and gift cards, with Board Leadership.	General Counsel and Chief Financial Officer	June 30, 2022
9. A monthly or quarterly listing provided to Audit Committee or Board of Directors of cardholders and transactions by user as a method of system control to encourage adherence to policy and to exhibit accountability and transparency.	Management shall revise the SANDAG Purchase Card Policy to include control processes, such as preparing regular program summary reports for review by the Chief Financial Officer and Chief Executive Officer. Such reports would be available to the Board of Directors or Audit Committee upon request.	Chief Financial Officer and Director of Organization Effectiveness	April 30, 2022

Finding IV Recommendations

Purchases of Hardware and Software Using Purchase Cards:

OIPA Recommendation	Proposed Action	Responsible Official	Estimated Date of Completion
1. Revise procurement card policy to limit or restrict payment for information technology hardware or software to the lowest level possible.	Management shall revise the SANDAG Purchase Card Policy to clarify allowable purchases, such as technology hardware and software, and establish related processes and procedures.	Chief Financial Officer and Director of Organization Effectiveness	April 30, 2022