



THE OFFICE OF THE INDEPENDENT PERFORMANCE AUDITOR

October 22, 2021

Chair Blakespear
SANDAG Board of Directors

Audit Committee Chair Zito
SANDAG Audit Committee

Dear Chair Blakespear and Audit Committee Chair Zito:

Subject: Results – Vendor Operational and System Control Review for the period of July 1, 2015 to June 30, 2021

The review objective was to review SANDAG's operational processes and system controls to ensure policies are consistent with Federal and State regulations and other applicable governing laws, rules, and regulations; to verify that controls are sufficient and consists of supporting documentation, and other relevant data; and to assess SANDAG's ability to track, obtain sufficient documentation, and keep adequate records of process and controls that supports adherence to policies and procedures.

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

The review primarily consists of gaining an understanding of the relevant laws, rules, regulations; inquiries of management and staff; and observations of the vendor system processes. A review does not provide assurance that we will become aware of all significant matters that would be disclosed in an audit or attestation engagement.

The Office of Independent Performance Auditor's (OIPA's) office reviewed the vendor process and system controls including a review of the vendor database and the process of adding, deleting, and approving entries in the vendor database from July 1, 2015 to June 30, 2021.

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.

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, 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
Senior Leadership Team
OIPA Website OIPA Files

Enclosure: Vendor Operational and System Control Review Report – Audit ID. 2022-02

Office of the Independent Performance Auditor

VENDOR OPERATIONAL AND SYSTEM CONTROL REVIEW

AUDIT No. 2022-02

September 2021

Independent Performance Auditor, Mary Khoshmashrab, MSBA, CPA

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August 25, 2021

Report 2022-02

Fact Sheet

Mary Khoshmashrab *Independent Performance Auditor*

(619) 595-5323

mary.khoshmashrab@sandag.org

VENDOR OPERATIONAL AND SYSTEM CONTROL REVIEW

The Office of the Independent Performance Auditors Review Objectives

The review objective was to review SANDAG's operational processes and system controls to ensure policies are consistent with Federal and State regulations and other applicable governing laws, rules, and regulations; to verify that controls are sufficient and consists of supporting documentation, and other relevant data; and to assess SANDAG's ability to track, obtain sufficient documentation, and keep adequate records of process and controls that supports adherence to policies and procedures.

The review primarily consists of gaining an understanding of the relevant laws, rules, regulations; inquiries of management and staff; and observations of the vendor system processes. A review does not provide assurance that we will become aware of all significant matters that would be disclosed in an audit or attestation engagement.

REVIEW FINDING HIGHLIGHTS

SANDAG'S SEGREGATION OF DUTIES MATRIX LACKS CONTROLS AND IS NOT BEING FOLLOWED (Report page no. 6)

Auditors were provided a segregation of duties matrix that specified the duties of staff relating to the vendor database and the ability to make entries and perform a validation of vendor information into the database. Through inquiries, auditors found that staff was not adhering to the matrix, which lead to improper segregation of duties as one staff member could both make entries and was also responsible for the validation and integrity of the vendor table. Upon further review of the matrix, auditors also found that one person is responsible for critical functions such as posting payables, approving check runs, vendor setup approval, and verifying vendor data.

THE VENDOR DATABASE IS INCOMPLETE, INACCURATE, AND LACKS QUALITY CONTROLS (Report page no. 8)

Auditors found that the database system does not require the data field for designating vendors as “active” or “inactive” to be completed. Specifically, the status field can be left blank or have the word “null” written in the field. Auditors also found that many vendor names were incomplete, and that some vendors did not have a taxpayer identification number or address listed. Auditors also found payees listed as vendors that do not conform to SANDAG’s definition of a vendor. Auditors found cases of duplicate vendors due to misspellings, different naming conventions, or exact copies of the vendor’s name. Auditors were provided a document titled “Vendor Setup Instruction” which according to management is always followed when inputting entries into the vendor database, however based on our review this document was not followed.

ACCOUNTS PAYABLE SUMMATIONS DO NOT HAVE ENOUGH ROOM TO FULLY DISPLAY TOTALS OF \$1 BILLION OR MORE (Report page no. 13)

During the auditors’ review of the accounts payable (AP) general ledger, auditors noted that the AP summations did not have enough space for totals that are at or over \$1 billion. For example, the total for FY 2015-16 was approximately \$1.185 billion, but the total shown on the general ledger AP summary documents is approximately \$185 million.

Staff: Lloyd Carter, Auditor-in-Charge
Michael Ryan, Management Internal Auditor I

REVIEW OBJECTIVES

UNDERSTANDING THE VENDOR PROCESS

SANDAG's Procurement Manual defines a vendor as ***"any third-party firm, contractor, or consultant to SANDAG"***. The vendor process refers to the process from selecting a vendor to managing the vendor database. For large dollar agreements (over \$100,000), SANDAG will seek out request for proposals and choose which vendor to contract with based on an evaluation of factors. Selection is based on a "best value" determination which is defined in SANDAG Board Policy 16 as a "value determined by objective criteria" such as "price, features, functions, life-cycle costs, and other criteria deemed appropriate".

SANDAG staff provided auditors with a document titled "Vendor Setup Request" which are the instructions that staff follows once they receive a request to add a vendor to the ONE Solution database. Once a request to set up a vendor is made, contracts staff submits, via email, a signed W-9 which is stamped "Vendor Set Up approved by:" which is then signed and dated by a Senior Contracts or Contracts Manager. Through inquiries with staff, auditors were told that only a designated staff member has access to enter vendor information into the database.

GENERAL REVIEW OBJECTIVES

The review objective was to review SANDAG's operational processes and system controls to ensure policies are consistent with Federal and State regulations and other applicable governing laws, rules, and regulations; to verify that controls are sufficient and consists of supporting documentation, and other relevant data; and to assess SANDAG's ability to track, obtain sufficient documentation, and keep adequate records of process and controls that supports adherence to policies and procedures.

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

The review consists primarily gaining an understanding of the relevant laws, rules, regulations, inquiries and observations from management, staff, and vendors. A review does not provide assurance that we will become aware of all significant matters that would be disclosed in an audit.

REVIEW RESULTS

FINDING I - SANDAG'S SEGREGATION OF DUTIES MATRIX LACKS CONTROLS AND IS NOT BEING FOLLOWED

The Department of Finance has a "segregation of duties matrix" which maps out the duties of employees' various tasks, a couple of which pertain to the vendor database (see Table 1). During our inquiries, auditors noted that SANDAG staff do not adhere to the segregation of duties matrix and that the matrix does not adequately segregate duties.

The segregation of duties matrix shows one staff member (labeled employee D in Table 1) approves and posts payables, approves check run, vendor setup approvals, and is responsible for the validation and integrity of the vendor database. Having one staff member responsible for all of the listed duties creates improper segregation of duties because one person is responsible for critical functions such as posting payables and approving check runs.

Through inquiries with SANDAG staff, auditors identified that the matrix was not being followed. Auditors found that employee H actually conducts the following tasks:

1. Receives notification from contract manager to setup a new vendor
2. Receives a stamped or signed W-9 for vendor information and approval from contractor
3. Conducts a search if the vendor requested to be setup is in the system
4. Receives all contractor information to prepare for the vendor setup
5. Reviews the contract information for setup
6. Enters the data into the system and the same staff verifies vendor data
7. Authorized to make vendor inactive/place vendor on the do not use

The above staff member's tasks do not conform to their duties as listed in the segregation matrix as they are not supposed to be validating the vendor data.

Table 1: Segregation of Duties Matrix

User	Role(s)	Enter Payables (OS)	Approve/Post Payables (OS)	Process Checks (OS)	Approve check run (OS)	Vendor Setup Approval (W-9)	Enter /Edit Vendors (OS)	Verify Vendor Data (OS,W-9)	Admin Rights (enter /edit users) (OS)	DBO Access (OS)	Server Access (OS)
Employee A/B/C	AP Processing	Yes	No	Yes	No	No	No	No	No	No	No
Employee D/E/F	Inv review/approval	No	Yes	No	Yes	No	No	No	No	No	No
Employee D/G	System payable posting	No	Yes	No	No	No	No	No	No	No	No
Employee D/H	Vendor setup approval	No	No	No	No	Yes	No	No	No	No	No
Employee I	Vendor setup	No	No	No	No	No	Yes	No	No	No	No
Employee D	Vendor review	No	No	No	No	No	No	Yes	No	No	No
OS System Admin - IT Senior/Manager*		-	-	-	-	-	-	-	Yes	Yes	Yes
*IT has access to System Admin within ONESolution to create and edit users, groups, menus, and performs functions found in system admin. and system server and system interface.											

Internal control is the principal mechanism for preventing and/or deterring fraud or illegal acts. Illegal acts, misappropriation of assets or other fraudulent activities can include an assortment of irregularities characterized by intentional deception and misrepresentation of material facts. Effective internal control provides reasonable assurance that operations are effective and efficient, that the financial information produced is reliable, and that the organization complies with all applicable laws and regulations.

SANDAG follows the State Controller's Office (SCO) 2015 Internal Control Guidelines. These guidelines assist local agencies in establishing a system of internal control to safeguard assets and prevent and detect financial errors and fraud.

In addition, SANDAG's Board adopted Policy No. 041 – Internal Control Standards Policy – in September 2019. The primary purpose of this policy is to establish internal control standards for management and staff that are governed by the Board of Directors. The policy reflects and conforms to the Internal Control – Integrated Framework (2013) issued by the Committee on Sponsoring Organization of the Treadway Commission (COSO). The five elements of internal control are:

- 1. Control Environment**
- 2. Risk Assessment**
- 3. Control Activities**
- 4. Information and Communication**
- 5. Monitoring**

Effective segregation of duties is a control activity. It is designed to prevent the possibility that a single person could be responsible for diverse and critical functions in such a way that errors or misappropriations could occur and not be detected in a timely manner, in the normal course of business processes.¹

SANDAG staff stated that they are performing multiple functions within the Finance Department. A SANDAG staff member who conducts vendor setup into the system also conducts encumbrances, bankruptcy, and provide audit support.

A possible reason for SANDAG staff not adhering to the current matrix could be due to current understaffing, an issue that was raised by a SANDAG manager. SANDAG's current "segregation of duties matrix" will need to be updated to ensure proper segregation of duties.

¹ U.S. Government Accountability Office.

Improper segregation of duties creates an increase in the risk of fraud. The understaffing also contributes to vendor database information being incomplete, inaccurate, and duplicated.

Recommendations:

1. SANDAG should review and update its segregation of duties matrix so it adheres to SANDAG Board Policy 41, the State Controller's Office's Internal Control Guidelines, and other best practices. The OIPA encourages that SANDAG seek guidance from the OIPA when designing the new segregation of duties matrix to ensure compliance with SANDAG Board Policy 41.
2. SANDAG should implement controls to ensure that staff adhere to the updated segregation of duties matrix.

FINDING II - THE VENDOR DATABASE IS INCOMPLETE, INACCURATE AND LACKS QUALITY CONTROLS

SANDAG uses a database, ONE Solution, to track vendor activities. During the review of ONE Solution, auditors noted that there are 8,619 vendors inputted into the system. Auditors found erroneous records such as incomplete vendor information, duplicate vendors, and vendors that do not meet SANDAG's definition of vendors. These errors indicate that there is lacking quality controls over the management oversight of the vendor database such as input controls or periodic reviews of vendor names.

INADEQUATE VENDOR DATABASE MANAGEMENT

Of the 8,619 vendors, there were 4,337 with missing status, 3,927 active status, 14 inactive and 341 vendors with null status. The "PE_ID_Status²" data field is not adequately designed to ensure that the status fields of vendors are filled or updated. Specifically, auditors found that the status field can be left blank or have the word "null" written in the field but according to the vendor setup instruction guide provided to staff, step 12 says to activate the record when the vendor setup review is completed. Consequently, this data field cannot be used by SANDAG to identify the population of "active" and "inactive" vendors.

Auditors also found that the Finance Department does not have a process to ensure that the status of vendors is accurate in the system. In addition, SANDAG is manually annotating vendor names with some form of "do not use" to indicate that the vendor is inactive. However, staff does not ensure that vendor status is updated consistently.

² The PE_ID_Status data field in ONE Solution is used to designate vendors as active or inactive by entering "AC" or "IN" respectively.

Of the 71 vendors marked as “do not use”, auditors found that only 12 vendors are marked as inactive status. In contrast, 2 of the 14 vendors marked as inactive were not updated to state “do not use”. Auditors noted that SANDAG staff is not consistently deactivating vendors.

INCOMPLETE AND INACCURATE VENDOR INFORMATION, AND DUPLICATE VENDORS IN THE DATABASE.

After review of the ONE Solution vendor database, auditors found the following:

- There are 3,100 entries that have no Taxpayer Identification Number.
- There are 218 vendor IDs that have no address listed in any field in the vendor master file.
- There are 212 vendor IDs that have no address listed and no Taxpayer Identification Number.
- Staff was provided a document with instructions on vendor setup, and it includes an instruction to add vendor information such as taxpayer identification and address.
- Auditors found names in the PE_Vendor field that do not meet SANDAG’s Procurement Manual’s definition of vendors, specifically:
 - Fxxxx,, Kxxxx [Former City of San Diego Mayor]
 - Cxxxx, Lxxx [Current SANDAG Employee]
 - Chips and Salsa
 - Printing Place
- 32 vendor names contained an asterisk, but staff could not provide a reason for the asterisk’s use.
- Finance staff could not provide a reason for why some employees and board members had an ID with a V as the first letter.
- SANDAG and ARJIS are listed as vendors.

Table 2 below provides a sample of vendors within the ONE Solution database that have incomplete vendor titles.

Table 2: Incomplete Vendor Names

Vendor Name	Vendor ID
Center for Applied	V06230
Congress for the	V00407
G*	V06682
Int'l Conference of	V00713
Maxwell Properties LP &	V03856
Moore & *	V04246
National Association of	V03764
Print	V02075
San Diego Convention and	V01202
San Diego Valet &	V01505

Table 3 below provides samples of vendors with more than one vendor ID.

Table 3: Vendors with Multiple Vendor IDs

Vendor Name	Vendor ID	Vendor Name	Vendor ID	Reason for Duplication
Bacons Multivision	V04124	Bacon's Multivision Inc.	V04124	(a)
Borgwardt, Dianne	V07706	Borgwardt, Dianne	V05591	(a)
Ferrer, Enrique	V07361	Ferrer, Enrique	V05355	(a)
Sergio Pallares	V03967	Pallares, Sergio	V06248	(b)
Siemens Energy & Automation Co	V02975	Siemens Energy & Automation Inc.	V02975	(a)
Administrative Serv SD LLC	V03914	Administrative Serv SD LLC	V03914	(a)
Booz Allen Hamilton Inc	V03576	Booz-Allen & Hamilton	V03576	(a)
CA Dept of Insurance	V04446	California Dept of Insurance	V04668	(b)
S.D. Railroad Museum	V01184	San Diego Railroad Museum	V02481	(b)
U S Postal Service	V04596	United States Postal Service	V06189	(b)

(a) Duplicate vendor name – slight difference in spelling of vendor name, misspelled vendor name.

(b) Duplicate vendor name – inconsistent naming convention for vendor name, i.e., reverse of first and last names, acronyms of San Diego, California.

- Numerous vendors have multiple vendor IDs despite the name being an exact copy in both format and spelling.
- Auditors also noted that the inconsistent placement of the word "The" for vendors could potentially lead to more duplicates.

VENDOR RECONCILIATION

Based on the information listed above and through inquiries with staff, auditors noted a lack of quality control over the vendor database.

SANDAG's Procurement Manual defines a vendor as ***"any third-party firm, contractor, or consultant to SANDAG"***.

Through our research, we identified the following quality control measures for maintaining accurate records in a vendor database:

- 1) ***Consolidate and Validate: Consolidate all vendor data, standardize company names, addresses, and other vendor information. Once a vendor is consolidated, verify addresses, banking information, and other critical data with external sources to ensure accuracy. Taxpayer Identification Number (TIN) validation and vendor name matching should be performed using the Internal Revenue Service's TIN matching system.***
- 2) ***Remove Duplicate Vendor Names.***
- 3) ***Archive Inactive Vendors: Archive inactive vendors that have not recently been used. If a vendor has not been used in the past 15-18 months, remove from vendor list.***
- 4) ***Fill in the Gaps: Make sure all files are complete and accurate by obtaining any missing data from the vendor. Add missing contact names, phone numbers and email addresses, and identify related vendors.***

According to the SANDAG staff, when a new vendor is entered into the system, staff conducts a search to see if the vendor is already in the database, but some duplicates can happen due to different spellings of the vendor's name. The example staff provided was United States and USA. However, it appears the ONE Solution software does not automatically prevent exact duplications. In addition, SANDAG does not appear to have a consistent naming convention or a process to ensure that the same vendor is entered into the system more than once other than conducting a search.

There is no control to ensure that vendors in the database have a taxpayer identification number and a listed address.

According to SANDAG staff, staff are conducting multiple duties which could be a contributing factor to the vendor list not being updated or inaccurate.

Inconsistent vendor management increases the risk of duplicate payments and the risk of potential fraud.

Recommendations:

To ensure that the vendor list is both accurate and complete, SANDAG should:

1. Review all vendors and classify them as active or inactive, and label them as such.
2. Replace or update the current vendor management software to prevent creating duplicate vendors.
3. Standardize naming conventions to avoid near duplicate vendors, such as "U S Postal Service" and "United States Postal Service".
4. Add the missing information such as the Taxpayer Identification Numbers and addresses for existing and active vendors.
5. Reconcile the vendor list to ensure that incomplete, inaccurate, or duplicated vendors are removed from the vendor list.
6. Consider hiring additional staff to ensure ease of staff multiple job duties.
7. Ensure that only entities conforming to SANDAG's definition of a vendor are included in the vendor list.
8. Provide training to staff for managing the database to ensure consistency in entering vendor information.

FINDING III - ACCOUNTS PAYABLE SUMMATIONS DO NOT HAVE ENOUGH ROOM TO FULLY DISPLAY TOTALS OF \$1 BILLION OR MORE

During the auditors' review of the vendors account payable (AP) general ledger, staff noted that the AP summations did not have enough space for totals that are at or over \$1 billion. For example, the total for FY 2015-16 was approximately **\$1.185 billion** but the total shown on the general ledger AP summary documents is approximately **\$185 million**. Another indication that supports the summary total in the AP general ledger is incorrect is the entry for VO1294-SANDAG shows approximately **\$271 million** while the grand total shows **\$185 million** as stated above.

In addition, AP general ledger for FY 2018-19 shows a total of **\$279 million**, however, when the AP general ledger was converted into an excel file the true amount is **\$2.279 billion**. This shows that staff cannot just assume the billions digit to be a one.

A basic tenant of financial reporting is the reliability of the information reported. Reliability³ is the quality of information that assures that information is reasonably free from error and bias and faithfully represents what it purports to represent.

SANDAG staff stated that the current system is old, inadequate, and that it was implemented when SANDAG was a smaller agency.

³ As defined in the Financial Standards Accounting Board's Statement of Financial Accounting Concepts No. 2 and referenced in the Government Accounting Standards Board's Concept Statement No. 1.

If summations are not carefully reviewed, staff could underreport the total AP Summary summations by at least a billion.

Recommendation:

The OIPA recommends SANDAG either update or replace the current accounting software so that the totals can be fully displayed in the vendors AP ledger.

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 Office of Independent Performance Auditor's (OIPA's) office reviewed the vendor process and system controls including a review of the vendor database and the process of adding, deleting, and approving entries in the vendor database from July 1, 2015 to the present.

METHODOLOGY

Auditors reviewed internal controls and their components to gain a sufficient understanding of the internal control structure and documented their understanding. Gaining an understanding of internal controls consisted 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. This understanding is necessary for planning the review engagement and determining the nature, timing, and extent of tests to be performed. Auditors adhered to Statement of Auditing Standards (SAS) No. 122 and SAS 99, which require performing a brainstorming session regarding potential fraud as it relates to the review.

The substantive review procedures consisted of an examination of the evidence that supports the recording, authorizing, approving, reviewing, and reporting, and the relevant monitoring and maintenance processes and procedures. The examination was based on a judgmentally selected sample of the population. We designed our review procedures to meet our review objectives.