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**Office of the Independent
Performance Auditor**

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SANDAG'S INDEPENDENT PERFORMANCE AUDITOR RELEASES INVESTIGATION INTO REPORTED MISCHARGES AND FINANCIAL ACCOUNTING ISSUES IN THE STATE ROUTE 125 TOLLING SYSTEM

San Diego, Calif. (March 25, 2024) Today, Courtney Ruby, SANDAG's Independent Performance Auditor released the results of an investigation into the SR 125 tolling system. The investigation was initiated by the Independent Performance Auditor, Audit Committee, Board Chair, and several Board members concerned about the potential impacts on SR 125 toll customers and the community at large. In December 2023, the Office of the Independent Performance Auditor (OIPA) began its investigation to determine if SANDAG's SR 125 financial accounting can be relied upon and what steps SANDAG took to rectify the known errors with customer accounts that were publicly disclosed in November 2023. During the investigation other significant matters were discovered.

SR 125 serves approximately 60,000 daily users and SANDAG's Finance department (Finance department) reported total annual revenue of just over \$39 million, with almost \$35 million coming from Toll Revenue. SANDAG allowed ETAN's new SR 125 back-office tolling system (BOS) to go live on June 6, 2022, with the knowledge ETAN did not fulfill many of its contractual requirements. SANDAG did not want to delay implementing the new SR 125 BOS system further because the project's "go-live" date had already been delayed by 30 months. However, when SR 125 went live, it was clear SANDAG and ETAN had not anticipated the volume of system issues. The performance issues and errors in the internal ticket system, used by both SANDAG tolling and the Finance department's staff, doubled in volume.

The investigation found ETAN's Fastlane financial reporting cannot be relied upon and the Finance department lacks adequate internal controls, including proper review and supervision, to ensure SR 125 financial information is accurately recorded and reported. The report recommends an independent assessment of the Finance department's policies, procedures, and practices.

Given the unreliability of ETAN's Fastlane reporting, the Finance department reconciled cash and credit card toll revenue outside the system via bank and merchant credit card statements. The toll revenue reported for cash and credit card tolls for FY23, was approximately \$12 million.

The Finance department identified issues with the BOS early on, particularly with regards to Unearned Revenue (or the prepaid account balances of FasTrak customers), Accounts

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Receivable, and Revenue. However, due to their limited staffing and heavy workload, they were unable to investigate these issues thoroughly for almost six months. The problems continued to accumulate in the meantime.

Out of the \$35 million in annual toll revenue, approximately \$23 million comes from FasTrak customers. The Finance department's most significant publicly reported problem related mostly to an internal ETAN financial system issue where the customer transactions were not being posted into Fastlane's general ledger correctly. This error was impacting SANDAG's Unearned Revenue account in SANDAG's QuickBooks (accounting software), because ETAN's Fastlane trial balance (the summary of ETAN's general ledger accounts) was used to prepare journal entries that are then recorded in SANDAG's QuickBooks, which is used to prepare SR 125 Annual Financial Statements.

These customer account errors in ETAN's financial system were widely publicized in November when the former Director of Accounting and Finance filed a lawsuit against SANDAG. Underlying this problem is the fact that SANDAG only reconciled its customer prepaid account balances annually. The report goes into detail about other issues caused by ETAN's consistently poor system performance and by both ETAN and the Finance department's lack of adequate financial controls to produce reliable financial information. Additionally, the report states, "It appeared that ETAN personnel did not always know how to fix system problems, and the lack of system documentation or poorly written documentation made fixing the problems difficult and time-consuming" taking sometimes months to identify and fix the system problems. In some instances, ETAN personnel were unable to fully resolve the system problems at all. The report found SANDAG's executive management was aware of ETAN system's inability to produce reliable financial reports, yet allowed the situation to persist and did not intercede at an operational level to ensure the reliability of the financial information. Instead, the Finance department's executive management dismissed concerns as not material.

The report goes into more detail about the errors reported publicly in November, and states "none of the underlying software programming or configuration issues have been fixed in ETAN's Fastlane." However, some errors have been adjusted in both ETAN's general ledger and SANDAG's QuickBooks, or only in QuickBooks for financial statement purposes. Lastly, some errors continue to be researched. Each error and its resolution are discussed in the report. The real take away from a systemic standpoint is that while many publicly reported errors appear to be an internal system issue in ETAN's general ledger system, and the customer account balances appear to be mostly correct, ETAN's software has not been corrected and adjustments will continually need to be made in both ETAN's general ledger and SANDAG's QuickBooks. Every time an accounting system is dependent upon a person to make manual entries, it increases the risk that errors will occur. Additionally, it was reported by numerous personnel involved in fixing ETAN system errors that "it was not uncommon for ETAN to fix one problem, and then another would occur".

A conclusion in the report reads:

The investigation demonstrates many system limitations must be overcome to arrive at a desired level of accuracy, which may or may not be possible, and even, if possible, may be cost prohibited given the level of effort that would need to occur.

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During the investigation, several other significant matters were discovered and are noted in the report. For instance, the investigation revealed ETAN's implementation of the BOS was headed for trouble from the beginning and SANDAG executive management failed to address the situation in a timely manner, including informing the Board of Directors. The report notes that members of the executive management team were aware of the seriousness of ETAN's problems and intended to inform the Board sixteen months earlier, however, the Board was not informed until October 2023 during a closed session. On January 12, 2024, SANDAG management presented the Board with a sole source contract request, to award a contract directly to Deloitte and A-to-Be to replace ETAN over the next seven months and the Board authorized the contract. The report recommends the Board and the public should be provided with an explanation as to why an RFP process was not initiated a year sooner, and why the Board was instead presented with a request to authorize a sole source contract award.

The investigation also found SANDAG has suffered almost \$2 million in revenue losses mainly due to the KAPSCH Roadway system transmitting trips incorrectly calculated or not transmitting trips at all. The Kapsch Roadway system captures vehicle transactions on the SR 125, processes them into trip data and transmits the information to the Fastlane Back-Office System for customer billing.

In addition, SANDAG collects violation revenue when customers fail to pay their tolls and escalating violations are applied to their accounts. The report estimates at least \$1 million in revenue has been lost due to a function in ETAN's BOS not being turned on to place a DMV hold on a customer's registration until their toll and violation fees are paid. This DMV Hold functionality will not be implemented in the new Deloitte and A-to-Be systems until the basic system functionality has been established, in what is being called "Phase 2". The investigation also revealed a customer account balance issue that is currently being investigated by management, where some customers' beginning account balances have been changed since the data was migrated from the old legacy system to ETAN's BOS when SR 125 tolling system went live on June 6, 2022. These errors are from a subset of customer accounts tested and ranged from \$0.02 to \$862.

The report includes 10 recommendations to both the SANDAG Board and SANDAG executive management. The report will be presented to the Audit Committee on Tuesday, March 26, 2024, at 1pm. This item has not yet been scheduled to be heard at a Board of Directors meeting.

For your convenience the report is attached and available on our website [here](#).

About Courtney Ruby, Independent Performance Auditor (IPA)

IPA Courtney Ruby was appointed by SANDAG's Board of Directors on September 8, 2023, and joined SANDAG on November 13, 2023. Assembly Bill 805 created the role of the IPA and established OIPA's authority to conduct performance audits of all SANDAG departments, offices, boards, activities, agencies, and programs. The OIPA is also the official body of SANDAG to investigate allegations of potential fraud, waste, and abuse identified by SANDAG staff or other stakeholders. She previously served as Oakland's Elected City Auditor for thirteen nonconsecutive years, between 2007 and 2023. During her tenure in Oakland, she conducted audits on the highest risk areas in the City such as homelessness, fire inspections, and Oakland's financial condition. Between 2019 and 2023, Auditor Ruby published ten investigations in response to whistleblower complaints from city leaders and employees, business owners, and residents. At SANDAG, Auditor Ruby leads a team of 5 performance auditors. Her work is based upon an Annual Work Plan approved by the Audit Committee, but can be modified when matters warrant immediate attention, such as the SR 125 investigation.

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