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August 11, 2008

File Number 8000100

Presiding Judge of the Superior Court  
Central Courthouse  
220 West Broadway  
San Diego, CA 92101

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SAN DIEGO  
COUNTY GRAND JURY

MEMBER AGENCIES

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- San Diego
- San Marcos
- Santee
- Solana Beach
- Vista
- and
- County of San Diego

Your Honor:

SUBJECT: SANDAG Response to San Diego County Grand Jury Reports

On May 21, 2008, the San Diego County Grand Jury issued two reports entitled "SANDAG: How Much Growth is Sustainable?" and "A Warmer World – A Challenge and An Opportunity." The reports included findings and recommendations related to SANDAG regional planning and capital program work activities. In accordance with state law, SANDAG is required to respond to the report findings and recommendations by August 19, 2008.

At its July 25, 2008, meeting, the SANDAG Board of Directors approved the enclosed responses to the two Grand Jury reports.

At the request of the San Diego County Grand Jury, also enclosed is a copy of the SANDAG responses to the findings resulting from the audit performed by the San Diego County Auditor on behalf of the Grand Jury.

If you have any questions or need additional information, please do not hesitate to contact me at (619) 699-1900 or Kim Kawada, SANDAG Policy and Legislative Affairs Program Manager, at (619) 699-6994.

Sincerely,

for

GARY L. GALLEGOS  
Executive Director

KKA/ais

Enclosures

ADVISORY MEMBERS

- Imperial County
- California Department of Transportation
- Metropolitan Transit System
- North County Transit District
- United States Department of Defense
- San Diego Unified Port District
- San Diego County Water Authority
- Southern California Tribal Chairmen's Association
- Mexico

**SANDAG Responses  
to San Diego County Grand Jury Reports**  
*(approved by SANDAG Board of Directors on July 25, 2008)*

**Responses to San Diego County Grand Jury Report entitled, "SANDAG: How Much Growth Is Sustainable?"**

**Discussion 1 – Infrastructure Capacity**

**Fact:** *The SANDAG projects of Highway 76 and the SPRINTER train are examples that contribute to our present infrastructure deficit.*

**Finding #01:** *While construction delays in Highway 76 continued, many housing developments using this highway were built without the transportation infrastructure to support them.*

- **SANDAG Response:** SANDAG agrees with this finding. SANDAG does not have local land use authority, and therefore it neither approves nor issues permits for local housing developments. SANDAG also is not the lead agency for the SPRINTER project.

**Finding #02:** *When the time frame delays and cost increase of the SPRINTER are applied to the existing and future SANDAG projects, the infrastructure deficit will increase dramatically.*

- **SANDAG Response:** SANDAG disagrees with this finding. It is not appropriate to extrapolate regionwide capital costs and schedules based upon a single project. SANDAG has completed several projects within budget and ahead of schedule, such as the Interstate 15 (I-15) Managed Lanes and Interstate 5 (I-5) High-Occupancy-Vehicle (HOV) Lane projects.

**Fact:** *SANDAG has not published a combined infrastructure assessment, or considered one in its plans to be provided to the public for the region. The figures for each element of infrastructure can be found in several different reports, but not in a single overall assessment format.*

**Finding #03:** *An easy to read scorecard by city or supervisorial district for unincorporated areas showing the population and the infrastructure element figures should be developed. These assessments will show infrastructure figures, such as public safety or hospital beds, so everyone can tell if development (both employment centers and housing tracks) can be supported.*

- **SANDAG Response:** SANDAG partially disagrees with this fact and finding. Not all infrastructure can be assessed at the regional level. Several local jurisdictions already prepare such infrastructure and service assessments, which are appropriate because local jurisdictions have land use authority, and required facility and service levels vary by jurisdiction. Further, SANDAG already prepares an annual performance monitoring report for the Regional Comprehensive Plan (RCP), which measures key regional indicators.

An element of the SANDAG RCP is the Integrated Regional Infrastructure Strategy (IRIS), which includes a capacity and needs assessment for ten regional infrastructure areas and a discussion on how to better link them together to improve performance. The annual SANDAG RCP performance monitoring report includes indicators for regional facilities, such as regional transportation systems, water supply, and water quality. The most recent report, entitled "Regional Comprehensive Plan: 2007 Annual Performance Monitoring Report," was prepared in November 2007.

It is a common practice to allocate the limited resources available based on criteria reflecting public priorities. Recognizing that there are limited resources also recognizes that not every need can be met; otherwise taxes and or fees must rise to provide the resources to meet all needs. Furthermore, in most cases there is not one broadly accepted level for public facilities or services, such as public safety or hospital beds. (See response to Recommendation #08-64.)

**Fact:** SANDAG often is criticized in the press for project delays and not building more highway lanes or roads, as many citizens want less spent on public transportation. SANDAG is caught in the middle between what the state mandates (more mass transit) and what the public wants (more lanes).

**Finding #04:** It may not be possible to pave our way out of congestion; other cities have tried it for years with little success. By approving managed growth first in order to allow the mass transportation infrastructure to catch up, SANDAG will be required to concentrate on the new mandates from the state, and look closely at water and power needs.

- **SANDAG Response:** SANDAG disagrees with both the fact and finding. SANDAG disagrees with the characterization of how growth occurs, and further, SANDAG does not have local land use authority and cannot "approve managed growth." Further, the State of California does not mandate mass transit. Many local citizens and civic groups have provided written testimony and testified before the SANDAG Board of Directors advocating for more public transit facilities and services (e.g., see public comments received on the 2030 Regional Transportation Plan (RTP) and at recent hearings on transit fare and service changes).

**Fact:** Cutbacks on Quality of Life are being made due to large increases in regional population. Recently one local city cancelled an annual holiday fair that had gone on for many years and another city stated that the jazz lawn concerts are getting too large and need to be reduced. A newspaper article tells of large gatherings at regional parks by charities and others that are having a negative impact on the park's neighborhood. Additionally, beach goers and surfers are complaining about having to pay to park at the beach.

**Finding #05:** The facts above are examples of how growth without enough infrastructures in place will affect the quality of life.

- **SANDAG Response:** SANDAG disagrees with both the fact and finding that imply that quality of life is "cut back" solely due to large increases in regional population. Population growth, both the rate and the absolute number of people, has slowed significantly in recent decades compared with the population growth during the 1970s

and 1980s. Out of the last 40 years, only the decade of the 1990s has been slower than the current decade, and the region was in a recession during the four years of the decade starting in 1990. In addition, the examples provided are too narrow to be used to judge such a broad measure as quality of life. There are other appropriate measures of quality of life, such as clean water, habitat preservation, shoreline preservation, and transit services. (See also the response to Finding #03 above.)

## **Discussion 2 – Boxed In**

**Fact:** *At the end of 2007 the board of SANDAG considered two choices with respect to the Regional Transportation Plan Funding: a Revenue Constrained Scenario of \$41 billion or a Reasonably Expected Revenue Scenario of \$57 billion.*

**Finding #06:** *The region in the past has been able to attract funds and grants from many different sources. If these additional funds are not found, it appears that a \$16 billion adjustment is going to be needed.*

- **SANDAG Response:** SANDAG agrees with this finding, and we are aggressively pursuing additional resources to fully fund our \$57 billion RTP. For example, SANDAG was successful in obtaining significant funding from Proposition 1B, the transportation infrastructure bond measure passed by California voters in November 2006. To date, the San Diego region has received nearly \$1.2 billion through Proposition 1B, both from its competitive programs and its formula-based programs. Competitive Proposition 1B programs include the Corridor Mobility Improvement Account (CMIA) process (\$450 million), the Trade Corridors Improvement Fund (TCIF) program (\$400 million), and the Traffic Light Synchronization Program (\$9 million), among others. Formula-based Proposition 1B programs include the State Transportation Improvement Program (STIP) Augmentation (\$146 million, Local Streets and Roads (\$63 million), and the Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) program (\$36 million), among others.

In terms of federal funding, the San Diego region was successful in obtaining \$3.9 million for 11 regional highway, transit, and local projects through the FY 2008 federal transportation appropriations process. The region also was awarded an additional \$18.5 million in funding from the United States Department of Transportation to help implement our buses on shoulder concept in the Interstate 805 corridor.

**Fact:** *Acceptance of competitive fixed prices is prevalent by SANDAG and most government agencies in the region. Competitive fixed prices are accepted as the best price obtainable, if they are close to the budgeted amount. Regional road prices and cost elements are not compared to the prices paid by our neighboring counties.*

**Finding #07:** *Prices for construction have recently come down from past prices and SANDAG believes it is due to the potential for a recession. However, the costs of cement, rock and steel have not come down. It appears that no one is looking into the question of whether we paid too much in the recent past or should today's prices be even less than quoted.*

- **SANDAG Response:** SANDAG partially disagrees with this fact and finding. The wording of the fact suggests that competitive prices are fixed. This is not accurate. Construction of major transportation infrastructure projects is subject to open, competitive bidding, negating the need to analyze past prices received.

Competitive prices are variable, and only after an assessment to identify the best and most cost-effective proposal are prices established in a contract. The competitive bidding process is standard procedure in both the public and private sectors. SANDAG goes to great lengths to attract many bidders, both from within and outside the San Diego region, ensuring a competitive process. In addition, prices for construction materials have leveled off as global rates of growth are no longer accelerating. It is possible that commodity prices could come down from their current levels, but this would require more than a leveling of global rates of growth or a substantial increase in supply or productivity of the commodities or production process.

**Fact:** *Currently there are three mass transit systems in place currently in the county: Metropolitan Transit System, North County Transit District, and the Metro Liner.*

**Finding #08:** *If the current projected growth estimates are allowed; a far-reaching mass transit system to all corners of the county is needed. Combining rail systems and expanding train lines would be a good start.*

- **SANDAG Response:** SANDAG disagrees with this finding. Our RTP includes a comprehensive transit plan, including rail systems, but it is not intended to serve “all corners of the county.” In addition, changes to state law would be required to combine rail systems, as proposed in the finding. In the San Diego region, transit operations is provided by two separate agencies – the San Diego Metropolitan Transit System (MTS) and the North County Transit District (NCTD).

Proposed improvements to regional transit, including rail and bus services, are included in SANDAG plans, including the long-range 2030 RTP as well as the short-range Coordinated Public Transit - Human Services Transportation Plan (Coordinated Plan). The Coordinated Plan, in its capacity as the Short-Range Transit Plan, provides a framework for transit system development over the next five years and reflects the goals and direction for service development as described in the RTP.

In addition, though stated in the fact, there is no transit system called “the Metro Liner.” However, the Southern California Regional Rail Authority, a joint powers authority consisting of the five county transportation planning agencies, provides a commuter rail service in Southern California known as Metrolink. Certain lines of this rail service provide a connection at the Oceanside Transit Center.

### Discussion 3 – SANDAG Board

**Fact:** SANDAG has started a recent study on Quality of Life (QoFL) issues, which includes beach sand replenishment, quality of water, mass transit, and wastewater run off.

**Finding #09:** These QoFL issues have long been with us and have been addressed by the area cities and county. To look at them regionally will be a new challenge for the board members.

- **SANDAG Response:** SANDAG partially agrees with this finding. Some of infrastructure areas are addressed primarily by local jurisdictions, while others are addressed primarily by regional agencies such as SANDAG. In the adopted RCP, SANDAG evaluated a number of regional infrastructure issues affecting the “quality of life” in the San Diego region (see the RCP Integrated Regional Infrastructure Strategy). The SANDAG Board of Directors has identified four RCP infrastructure components that are in need of more reliable revenues: public transit, habitat conservation, water quality, and shoreline preservation. The 18 cities and County government have addressed and provided resources for these infrastructure components; however, these also are components for which a regional approach may make sense.

**Fact:** Many of the cities use terms of “Build Out” and “Open Space,” while a consistent definition is hard to find. We see statements in the press from elected officials using these terms and they sound something like growth will stop at “build out” and “open space” is to be left natural. One city classifies I-5 as open space.

**Finding #10:** SANDAG should provide better definitions of these terms for the public to understand.

- **SANDAG Response:** SANDAG partially disagrees with this finding. In the RCP, the term “open space” is defined as “areas of land not covered by structures, driveways, or parking lots.” There is no widely accepted definition of “build out.”

### Discussion 4 – County Audit

**Fact:** SANDAG’s financial system is owned and administered by Metropolitan Transit System (MTS) without an up to date agreement outlining the use of this system.

**Finding #11:** Since MTS is a recipient of grants from SANDAG, there is a potential conflict of interest for MTS to administer the financial system.

- **SANDAG Response:** SANDAG partially disagrees with this finding. Adequate protocols are in place for the financial system used by SANDAG, and there is no “conflict of interest” as stated in the finding. However, SANDAG will formalize the joint use agreement with MTS in the form of a Memorandum of Understanding (MOU) between the agencies, to be completed no later than October 31, 2008.

Specific portions of the finding are addressed individually below:

1. *“Personnel interviewed indicated that the SANDAG Enterprise Resource Planning (ERP) software solution, Integrated Financial and Administrative Solution (IFAS), is installed in a server physically located at another organization. Additionally, a formal agreement between the two entities, SANDAG and MTS, outlining the joint use of IFAS is not currently in effect.”*

This is factual. The IFAS server is physically located at MTS, and there is not a formal agreement in place outlining the joint use of the IFAS server (SANDAG and MTS run separate instances of the IFAS financial data on that server as explained in No. 3 below).

2. The second paragraph of the finding explaining the history leading up to the current situation is factual.
3. *“Due to the arrangement, SANDAG does not possess physical or logical control of their ERP system.”*

SANDAG does possess logical control of the SANDAG IFAS system. Connection to the system physically located at MTS is via a dedicated T-1 communications circuit between SANDAG and MTS. Each agency administers its own IFAS instances (MTS Production and MTS Test administered by MTS, SANDAG Production and SANDAG Test administered by SANDAG). Each of these four instances is an entirely separate database. Password-protected access to the SANDAG instances is controlled by SANDAG; password-protected access to MTS instances is controlled by MTS.

4. *“Additionally, since MTS is also a grantee of SANDAG there is a potential conflict of interest for them to host the ERP.”*

SANDAG and MTS share the annual maintenance cost (paid to Sungard Bi-Tech). In addition, SANDAG and MTS each pay Sungard Bi-Tech the annual licensing fee, depending on the number of users and the modules each agency uses. Each agency separately administers its IFAS instances, using password-protected access. In addition, the SANDAG Finance Department has extensive checks and balances in place to ensure the integrity of the SANDAG IFAS data. These factors ensure there would not be any conflict of interest with MTS hosting the physical aspects of the IFAS system. It would cost over \$100,000 to establish a new IFAS server at SANDAG.

5. *“Furthermore, responsibilities and liabilities are not clearly outlined in a legal contract, leaving the joint use agreement as only a mutual understanding between the two organizations.”*

Practices to date have been based on mutual verbal understanding and five years of experience with the current arrangement. However, SANDAG will formalize the joint use agreement with MTS in the form of an MOU between the agencies, to be completed no later than October 31, 2008.

**Fact:** Many different excel spreadsheets are used to track grants and prepare monthly reports back to the grantor. Input to these spreadsheets is not automated to transfer data from expenditure systems.

**Finding #12:** With the many separate spreadsheets needed for the various grants, the reliance factor decreases. SANDAG was not able to ensure that access lists to these reporting systems are updated as needed to reflect the current user environment, or that these lists are reviewed periodically.

- **SANDAG Response:** SANDAG partially disagrees with this finding. Appropriate protocols are in place to meet grantor needs. SANDAG uses Excel spreadsheets to compile information for progress reports to grantor agencies. The source of the data is the financial system. Spreadsheet format is generally standardized among the type of grantor, however, different reporting requirements exist for different grantors, and widespread standardization would not meet the reporting requirements of the individual grantor agencies. Compensating controls exist with two levels of supervisory review of every billing and progress report. These controls are reviewed on an annual basis by the independent third-party auditors in connection with the annual financial audit and the Single Audit. In addition, SANDAG is subjected to the Federal Transit Administration triennial review, with progress billings and quarterly reporting an area of focus. The last triennial review found the process and controls were sufficient, and the review resulted in no findings or recommendations.

With respect to access to various state and federal online reporting systems, SANDAG updates the access as needed to reflect the current user environment (i.e., upon employee termination or hiring). One individual generally is appointed "administrator" authority (by the online reporting system) and that individual has the security to make the changes. In response to the comment, SANDAG will keep a written list of access to the online reporting systems and will log all changes by using an add/remove form.

**Fact:** Several periodic audits are both required and performed on the financial records of SANDAG. An ongoing tracking system for the various findings has not been established.

**Finding #13:** When the auditor asked for the findings and recommendations for the past three years, SANDAG cited "they had no findings except one which was resolved." The auditor later discovered findings from audits and reviews still in process of resolution.

- **SANDAG Response:** SANDAG partially disagrees with this finding. SANDAG has an internal process to track findings and recommendations of various audits. However, this process will be strengthened by formally assigning the internal responsibility to the SANDAG Internal Auditor position.

It should be noted, that when the question of audit findings was initially asked, it was in context of the annual financial audit, which produces a "Management Letter." This is a normal outcome of the annual financial audit. The response provided was in reference to that question. SANDAG also provided the last annual review of the SANDAG Indirect Rate Cost Proposal, which is conducted by Caltrans. This was provided without any prompting by the auditor. The review conducted by the California Legislative Analyst's Office (LAO), as required by Senate Bill (SB) 1703, was provided upon request by the



auditor, after his reading of Board minutes. The findings of the LAO dealt primarily with operational areas within SANDAG and not specifically with grant or TransNet administration.

The auditor concluded that “there are currently no written standards or a formal process for handling and tracking audit or review findings and recommendations made to SANDAG from outside entities.” A process does exist at the Executive Team level; however, this process will be strengthened by assigning responsibility for it to the Internal Auditor position.

**Fact:** *The duties of receiving, processing, and depositing checks are not adequately segregated to ensure proper safeguarding.*

**Finding #14:** *A sole mail clerk opens and distributes all the incoming mail for SANDAG over four floors daily. This includes incoming checks. The auditor found that unendorsed checks could be left unattended in the mail clerk’s cubicle.*

- **SANDAG Response:** SANDAG disagrees with this finding. The finding states that “unendorsed checks could be left unattended in the mail clerk’s cubicle.” When the mail clerk is absent, another employee delivers the mail, including any unendorsed checks.

## **Recommendations**

**The 2007/2008 San Diego County Grand Jury recommends that the San Diego Association of Governments Board of Directors:**

**08-64:** *Establish an assessment scorecard by county district or city that outlines the infrastructure carrying capacity. This will include needed water, waste water treatment, police, fire protection, hospital care, environmental concerns, mass transit, existing roads, energy supplies and anything else supplied by the cities and county government. Using this scorecard each district and its citizens will know the required infrastructure that is available to support additional growth.*

- **SANDAG Response:** This recommendation will not be implemented because it is not warranted or is not reasonable. Some local jurisdictions already conduct these types of assessments for their own jurisdictions, and this is appropriate because they have local land use authority, and required service and facility levels vary by local jurisdiction.

**08-65:** *Propose a realistic budgeting process that does not rely on borrowing against growth to pay for the deficit existing in our infrastructure.*

- **SANDAG Response:** This recommendation will not be implemented because it is not warranted or is not reasonable. The SANDAG RTP is not dependent on “borrowing against growth.” Instead the plan sets forth a Reasonably Expected Funding scenario that anticipates new revenue from a variety of sources, such as user fees, more federal and state funds, fair share assessments on new development, and other local initiatives.

**08-66:** *Explore alternatives to having area Mayors and Supervisors make the board decisions. With the State mandates becoming more restrictive, regional decisions will need to be voted on that support the entire region and not just a city or part of the county.*

- **SANDAG Response:** This recommendation will not be implemented because it is not warranted or is not reasonable. Alternative governance structures have been evaluated several times in recent years, and the consensus at the local and state levels has provided support for the current SANDAG Board of Directors governance structure and process.

**08-67:** *To look at the cost elements of the new lower priced contracts, compare the cost elements to the elements of past contracts and contracts of neighboring counties. Also these new cost elements should be used in settling any claims on existing contracts.*

- **SANDAG Response:** This recommendation will not be implemented because it is not warranted or is not reasonable. Construction of major transportation infrastructure projects is subject to open, competitive bidding, negating the need to analyze past contracts received. (See prior response to Finding #07.) In addition, using new cost elements in settling claims on existing contracts is not feasible to the extent that it would be inconsistent with the terms of the existing contractual agreements.

**08-68:** *In your reply to the San Diego County Audit & Controllers audit findings, please provide a copy to the Grand Jury.*

- **SANDAG Response:** This recommendation will be implemented. A copy of the separate response to the audit findings will be sent with SANDAG final responses to the Grand Jury report.

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## **Responses to San Diego County Grand Jury Report entitled “A Warmer World – A Challenge and An Opportunity”**

### **Facts/Findings**

**Fact:** *AB 32, The Global Warming Solutions Act of 2006, requires that GHG emissions be reduced to 1990 levels by the year 2020, a 25 percent reduction.*

**Finding #08:** *Local government has a responsibility to inventory GHG emissions in its operations and in the community, set reduction targets, and to create and implement an action plan.*

- **SANDAG Response:** SANDAG partially disagrees with this finding. To our knowledge, the state has not assigned specific responsibilities to local governments for implementing the provisions of Assembly Bill 32 (AB 32). However, many local governments have voluntarily begun to implement such provisions. Similarly, SANDAG entered into a partnership with the California Energy Commission to develop a Regional Climate Action Plan. This plan will include an inventory of the San Diego region’s greenhouse gas (GHG) emissions from the transportation, electricity, and natural gas sectors of the economy, which on a statewide basis account for nearly 75 percent of all

GHG emissions. The plan will focus on GHG reduction strategies within those sectors. Other specific requirements of AB 32 will be addressed as they are developed by the state.

**Fact:** SANDAG does not have a climate protection action plan in place.

**Finding #09:** As the regional governing body charged with transportation planning, the major source of GHG emissions, SANDAG has a special obligation to be the leader in developing and implementing an effective climate protection action plan.

- **SANDAG Response:** SANDAG agrees with this finding. The California Transportation Commission (CTC) recently adopted revised guidelines for preparation of Regional Transportation Plans (for which SANDAG is responsible in the San Diego region). These CTC guidelines set forth recommendations for addressing greenhouse gas emissions in the update of such plans. The Regional Climate Action Plan being prepared by SANDAG will include strategies to address greenhouse gas emissions from the transportation sector, in addition to other sectors of the regional economy. See also the response to Finding #8 above, concerning the current status of a Regional Climate Action Plan.

**Fact:** Two of the major utility companies in California are on track for meeting the state requirement of obtaining 20 percent of electricity from renewable sources.

**Fact:** The local utility company has announced that it will not be able to meet the state mandate.

**Finding #10:** SANDAG has a responsibility to use its influence to encourage the local utility to match the commitment of other California utility companies to develop renewable energy resources.

- **SANDAG Response:** SANDAG agrees with this finding. SANDAG adopted a Regional Energy Strategy (RES) in 2003, which included renewable energy goals through 2030. At the time the strategy was developed, the RES renewable energy goals were more aggressive than the state requirements. Since that time, the state has adopted a new Renewable Portfolio Standard that exceeds what is included in the RES. SANDAG is currently updating the RES and will reevaluate the renewable energy goals as well as all other goals of the RES.

**Fact:** California is second only to Arizona in percentage of sunshine.

**Finding #11:** This region has a renewable source of energy that is not being sufficiently utilized.

- **SANDAG Response:** SANDAG agrees with this finding.

## Recommendations

**The 2007/2008 San Diego County Grand Jury recommends that the SANDAG Board of Directors:**

**08-76:** *Develop a climate protection action plan with specific policies and procedures including targets and timetables which will enable the region to comply with the mandate of AB 32.*

- **SANDAG Response:** SANDAG is currently preparing a Regional Climate Action Plan, which will identify strategies to reduce GHG emissions from the transportation, electricity, and natural gas sectors of the economy. In addition, when the next RTP update is completed in 2011, SANDAG will prepare that plan in accordance with the California Transportation Commission requirements for the preparation of RTPs. SANDAG also is updating its Regional Energy Strategy along with the Regional Climate Action Plan, which is scheduled to be completed by June 2009.

**08-77:** *Work closely with the utility companies to encourage actions that will promote quality of life and sustainability.*

- **SANDAG Response:** SANDAG has implemented this recommendation, through the creation of a Regional Energy Working Group, which includes San Diego Gas and Electric and other stakeholders. The Regional Energy Working Group is currently working on the update of the Regional Energy Strategy and Regional Climate Action Plan.



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July 22, 2008

8000100

Mr. Kenneth J. Mory  
 Chief of Audits  
 Office of Audits & Advisory Services  
 County Operational Center  
 5555 Overland Avenue, Building 2, Room 282  
 San Diego, CA 92123

MEMBER AGENCIES

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  - Vista
  - and
  - County of San Diego
- 
- ADVISORY MEMBERS
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  - California Department of Transportation
  - Metropolitan Transit System
  - North San Diego County Transit Development Board
  - United States Department of Defense
  - San Diego Unified Port District
  - San Diego County Water Authority
  - Mexico

Dear Mr. Mory:

SUBJECT: Grand Jury Audit of the San Diego Association of Governments

Enclosed are responses to the findings resulting from the audit performed by your office on behalf of the Grand Jury (your report no. A08-024). In accordance with Recommendation #08-68, we are also providing a copy of the responses to the Grand Jury.

If you have any questions or need additional information, please do not hesitate to contact me, or SANDAG's Director of Finance, Renée Wasmund.

Sincerely,

*Gary L. Gallegos*  
 GARY L. GALLEGOS  
 Executive Director

RWA/taw

Attachment/Enclosure

## **SANDAG Response to County Audit Report No. A08-024 Conducted on Behalf of the Grand Jury**

**Finding #11:** *Since MTS is a recipient of grants from SANDAG, there is a potential conflict of interest for MTS to administer the financial system.*

**Response:** SANDAG partially disagrees with this finding. Specific portions of the finding are addressed individually below:

1. "Personnel interviewed indicated that the SANDAG Enterprise Resource Planning (ERP) software solution, integrated Financial and Administrative Solution (IFAS), is installed in a server physically located at another organization. Additionally, a formal agreement between the two entities, SANDAG and MTS, outlining the joint use of IFAS is not currently in effect."

This is factual. The IFAS server is physically located at MTS, and there is not a formal agreement in place outlining the joint use of the IFAS server (SANDAG and MTS run separate instances of the IFAS financial data on that server as explained in #3 below).

2. The second paragraph of the finding explaining the history leading up to the current situation is factual.

3. "Due to the arrangement, SANDAG does not possess physical or logical control of their ERP system."

SANDAG *does* possess logical control of SANDAG's IFAS system. Connection to the system physically located at MTS is via a dedicated T-1 communications circuit between SANDAG and MTS. Each agency administers its own IFAS instances (MTS Production and MTS Test administered by MTS, SANDAG Production and SANDAG Test administered by SANDAG). Each of these four instances is an entirely separate database. Password-protected access to the SANDAG instances is controlled by SANDAG; password-protected access to MTS instances is controlled by MTS.

4. "Additionally, since MTS is also a grantee of SANDAG there is a potential conflict of interest for them to host the ERP."

SANDAG and MTS share the annual maintenance cost (paid to Sungard Bi-Tech). In addition, SANDAG and MTS each pay Sungard Bi-Tech the annual licensing fee, depending on the number of users and the modules each agency uses. Each agency separately administers its IFAS instances, using password protected access. In addition, SANDAG's Finance Department has extensive checks and balances in place to ensure the integrity of SANDAG's IFAS data. These factors ensure there would not be any conflict of interest with MTS hosting the physical aspects of the IFAS system. It would cost over \$100,000 to establish a new IFAS server at SANDAG.

5. "Furthermore, responsibilities and liabilities are not clearly outlined in a legal contract, leaving the joint use agreement as only a mutual understanding between the two organizations."

Practices to date have been based on mutual verbal understanding and 5 years of experience with the current arrangement. However, SANDAG will formalize the joint use agreement with MTS in the form of a Memorandum of Understanding (MOU) between the agencies, to be completed no later than October 31, 2008.

**Finding #12:** *With the many separate spreadsheets needed for the various grants, the reliance factor decreases. SANDAG was not able to ensure that access lists to these reporting systems are updated as needed to reflect the current user environment, or that these lists are reviewed periodically.*

**Response:** SANDAG partially disagrees with this finding. SANDAG uses Excel spreadsheets to compile information for progress reports to grantor agencies. The source of the data is the financial system. Spreadsheet format is generally standardized among the type of grantor, however different reporting requirements exist for different grantors and widespread standardization would not meet the reporting requirements of the individual grantor agencies. Compensating controls exist with 2 levels of supervisory review of every billing and progress report. These controls are reviewed on an annual basis by the independent third-party auditors in connection with the annual financial audit and the Single Audit. In addition, SANDAG is subjected to the Federal Transit Administration triennial review, with progress billings and quarterly reporting an area of focus. The last triennial review found the process and controls were sufficient and the review resulted in no findings or recommendations.

With respect to access to various state and federal online reporting systems, SANDAG updates the access as needed to reflect the current user environment (i.e., upon employee termination or hiring). One individual is generally appointed "administrator" authority (by the online reporting system) and that individual has the security to make the changes. In response to the comment, SANDAG will keep a written list of access to the online reporting systems and will log all changes by using an add/remove form.

**Finding #13:** *When the auditor asked for the findings and recommendations for the past three years, SANDAG cited "they had no findings except one which was resolved." The auditor later discovered findings from audits and reviews still in process of resolution.*

**Response:** SANDAG partially disagrees with this finding. When the question was initially asked, it was in context of the annual financial audit which produces a "Management Letter". This is a normal outcome of the annual financial audit. The response provided was in reference to that question. SANDAG also provided the last annual review of SANDAG's Indirect Rate Cost Proposal which is conducted by Caltrans. This was provided without any prompting by the auditor. The review conducted by the California Legislative Analyst's Office (as required by SB1703) was provided upon request by the auditor, after his reading of Board minutes. The findings of the LAO dealt primarily with operational areas within SANDAG and not specifically with grant or *TransNet* administration.

The auditor concluded that "there are currently no written standards or a formal process for handling and tracking audit or review findings and recommendations made to SANDAG from outside entities." A process does exist at the executive team level; however, this

process will be strengthened by assigning this responsibility to SANDAG's recently added Internal Auditor position.

**Finding #14:** *A sole mail clerk opens and distributes all the incoming mail for SANDAG over four floors daily. This includes incoming checks. The auditor found that unendorsed checks could be left unattended in the mail clerk's cubicle.*

**Response:** The intent of this comment is not clear. The finding states that "unendorsed checks could be left unattended in the mail clerk's cubicle", and it also states "unendorsed checks can be left in the Accounts Receivable clerk's cubicle unattended". When the Accounts Receivable clerk is absent, the supervisor reviews the content of the clerk's in-box. If deposits exceed \$50,000, a deposit is prepared and made. Any undeposited checks are maintained in a single folder in a locked drawer. When the mail clerk is absent, another employee delivers the mail, including any unendorsed checks.

SANDAG believes that appropriate segregation of duties exists and any misappropriation of assets is mitigated. In addition the mail clerk does not have access to the financial system. Accounts receivable aging reports are generated monthly and any uncollected balances researched in a timely manner. The amount and frequency of "lonesome" receipts (i.e., those not expected) are infrequent and not material.