



July 18, 2023

Board of Directors
Sacramento Area Council of Governments
Sacramento, California

This letter is provided in connection with our engagement to audit the financial statements and to audit compliance over major federal award programs of the Sacramento Area Council of Governments (SACOG) as of and for the year ended June 30, 2023. Professional standards require that we communicate with you, certain items including our responsibilities with regard to the financial statement audit, the compliance audit, and the planned scope and timing of our audits, including significant risks we have identified.

Our Responsibilities

As stated in our engagement letter dated July 18, 2023, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), *Government Auditing Standards* of the Comptroller General of the United States of America, the requirements of the Single Audit Act, as amended; and the provisions of the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), for the purpose of forming and expressing opinions on the financial statements and on major federal award program compliance. Our audits do not relieve you or management of your respective responsibilities.

Our responsibility as it relates to the schedule of expenditures of federal awards is to evaluate its presentation for the purpose of forming and expressing an opinion as to whether it is presented fairly in all material respects in relation to the financial statements as a whole.

Planned Scope of the Audit

Our audits will include examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. Our audit is designed to provide reasonable, but not absolute assurance about whether the financial statements as a whole are free of material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations. Because of this concept of reasonable assurance and because we will not examine all transactions, there is a risk that material misstatements may exist and not be detected by us.

Our audit procedures will also include determining major federal programs and performing the applicable procedures described in the U.S. Office of Management and Budget *OMB Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the entity's major programs.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements or material noncompliance may not be detected exists, even though the audit is properly planned and performed in accordance with U.S. GAAS, *Government Auditing Standards* of the Comptroller General of the United States of America, the requirements of the Single Audit Act, as amended; and the provisions of the Uniform Guidance.

Our audits will include obtaining an understanding of the entity and its environment, including its internal control, sufficient to assess the risks of material misstatement of the financial statements, the risk of material noncompliance in the major federal award programs, and as a basis for designing the nature, timing, and extent of further audit procedures, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control over financial reporting. However, we will communicate to you at the conclusion of our audit, any material weaknesses or significant deficiencies identified. We will also communicate to you:

- Any violation of laws or regulations that come to our attention;
- Our views related to qualitative aspects of the entity's significant accounting practices, including accounting policies, accounting estimates, and financial statement disclosures;
- Significant difficulties, if any, encountered during the audit;
- Significant unusual transactions, if any;
- The potential effects of uncorrected misstatements on future-period financial statements; and
- Other significant matters that are relevant to your responsibilities in overseeing the financial reporting process.

Professional standards require us to design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as "significant risks." Although we are currently in the planning stage of our audit, we have preliminarily identified the following significant risks that require special audit consideration.

- Revenue Recognition - Professional standards require auditors to assess the possibility of revenue recognition as a significant risk. Accordingly, we identified revenue recognition as a significant risk that revenues may be misstated based on the volume of transactions and the significance of revenues to the Commission.
- Management override of internal controls over financial reporting and compliance - Professional standards require auditors to address the possibility of management overriding controls. Accordingly, we identified as a significant risk that management of the Commission may have the ability to override controls that the organization has implemented. Management may override the organization's controls in order to modify the financial records with the intent of manipulating the financial statements to overstate the Commission's financial performance or with the intent of concealing fraudulent transactions.
- Implementation of Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements*, effective July 1, 2022. The implementation of new GASB statements requires additional judgment without prior year practices to rely on and could result in errors in financial reporting.

The basic financial statements include the financial statements of the Local Transportation Funds and the State Transit Assistance Special Revenue Fund, which we consider to be significant components of the consolidated financial statements. The financial statements of the Local Transportation Funds and the State Transit Assistance Special Revenue Fund are audited by other auditors, and we will not take responsibility for the audit performed by the other auditors, rather will refer to their audit in our report. Our decision to refer to the report of the

other auditor is based upon (1) our evaluation of the materiality of the components noted above with respect to the basic financial statements as a whole; (2) the ability for group management to provide necessary audit evidence with respect to the components noted above (3) our consideration of the timing requirements of the engagement. Our planned audit procedures with respect to the components noted above include required correspondence with the other auditor, obtaining and reading their auditor's report and the related financial statements, and other procedures as considered necessary.

We expect to begin our audit on approximately August 2023 and issue our report on approximately November 2023.

This information is intended solely for the information and use of Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully,

A handwritten signature in black ink that reads "Erik Bailly LLP". The signature is written in a cursive, flowing style.

Sacramento, California