

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Honorable Chair and Members of the Board of Directors
San Diego Association of Governments
San Diego, California

Independent Auditor's Report

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of San Diego Association of Governments (SANDAG), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise SANDAG's basic financial statements, and have issued our report thereon dated March 23, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered SANDAG's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of SANDAG's internal control. Accordingly, we do not express an opinion on the effectiveness of SANDAG's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described below, we identified a certain deficiency in internal control that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below as item 2025-001 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described below as item 2025-002 and 2025-003 to be a significant deficiencies.

(2025-001) Prior Period Restatements and Material Adjustments Detected During the Audit

Auditing standards require auditors to include an internal control recommendation when there are prior-period restatements and material audit adjustments. During our audit, we identified material and immaterial errors in the accounting records that required correcting and adjusting journal entries as follows:

- Correcting entries related to the new West Office Lease including the removal of the prior office lease and correcting prepaid expenses.
- To correct an error in construction in progress for the prior period related to a project with NCTD that should have been expensed by SANDAG.
- To reverse unearned revenues and receivables related to Caltrans projects as the funds had not yet been received as of June 30, 2025.
- To correct revenues related to fiscal year 25/26 from Caltrans that were incorrectly accrued at June 30, 2025.
- To accrue additional expenses for expenses incurred prior to June 30, 2025 that were paid after the fiscal year end.

Potential Effect

We recommend SANDAG establish procedures to, whenever possible, identify adjustments in the reporting period in which the related transactions occurred. The financial statements could be materially misstated if year-end adjustments are not recorded, and amounts are not reconciled to the subsidiary records.

Recommendation

Auditing standards indicate that material adjustments identified through the audit process are evidence of a weakness in SANDAG's internal control structure. Efforts should be made to enhance SANDAG's year-end closing procedures to include areas that resulted in audit adjustments.

Management's Comments Regarding Corrective Actions Planned

SANDAG concurs with the auditor's recommendation to strengthen internal controls related to year-end closing procedures. To that end, SANDAG will develop an internal controls framework to provide a more comprehensive enhancement of its accounting and finance processes. The framework will identify risks, controls, mitigations, residual risks, and responsible parties for various aspects of financial operations, including accruals, capital assets, and billing and revenue recognition. The framework will be integrated into SANDAG operations and ongoing internal control monitoring and SANDAG will identify training opportunities to enhance knowledge of capital asset and lease reporting.

(2025 -002) Timeliness of Financial Reporting and Post-Start Adjusting Entries

Condition

The financial statements and several supporting schedules were provided later than planned. In addition, multiple adjusting journal entries needed to finalize account balances were recorded after audit fieldwork began.

Criteria

Under Generally Accepted Government Auditing Standards (GAGAS) and the audit engagement terms, management is responsible for preparing timely and accurate financial statements and ensuring all supporting documentation is ready at the start of the audit. Establishing a clear and achievable timeline helps both management and the audit team complete the process efficiently and meet reporting deadlines.

Cause

These delays appear to stem from a combination of factors, including:

- The need for additional time to finalize certain year-end reconciliations.
- Competing priorities within the finance team during close.
- Resource constraints affecting the ability to complete reviews prior to the start of audit work.

Potential Effect

The timing of information and post-start AJEs extended audit procedures, required updates to completed work, and reduced overall audit efficiency. Management collaborated with the audit team to resolve outstanding items.

Recommendation

We recommend enhancing the year-end close process by finalizing reconciliations earlier, strengthening review procedures, and establishing a shared reporting calendar with clear internal milestones to support timely audit readiness.

Management's Comments Regarding Corrective Actions Planned

SANDAG concurs with the auditor's recommendation and will develop more robust procedures outlining the review of monthly/quarterly accounting reconciliations. These procedures will include providing completion and timeliness metrics to help finalize reconciliations during the fiscal year. SANDAG will review its existing year-end reporting calendar tool for completeness; make updates to timeliness that will identify clear internal milestones and support timely audit readiness. SANDAG is also planning to prepare more of the capital asset work during the year and start the upcoming GASB implementations earlier. Competing priorities and resource constraints has been a cause of reporting delays. In FY 2026, the Accounting & Finance Department prepared a detailed plan of specific objectives with deadlines. Progress towards these objectives is tracked on a quarterly basis. This has also been helpful in re-prioritizing workload as new needs are identified.

(2025 -003) Toll Back Office System Limitations

Condition

During our audit, we became aware of immaterial differences between the Toll Back Office System (ETAN) reports and SANDAG's Enterprise Resource Planning (ERP) software balances. Because ETAN contains the source data that is used to record accounting transactions in the ERP system, our expectation is that there are no variances. We noted the immaterial differences in toll penalty receivables and

customer account balances. SANDAG's staff is aware of the differences but have not yet identified the source of the differences.

Additionally, the historical collections on toll penalties has decreased since the implementation of ETAN. The decrease is partially due to a phase of the ETAN system that was not implemented that would allow SANDAG to inform the CA DMV of the penalty and allow the DMV to require the penalty to be paid prior to renewing annual vehicle registration. SANDAG also does not currently have a collection system in place to track DMV billings and receipts, should the DMV begin this process.

Criteria

Management is responsible for preparing accurate financial statements, which includes ensuring all subsidiary systems posting to the ERP system are operating effectively and recording transactions accurately.

Cause

The issues identified during the audit are largely due to implementation issues with ETAN that are not yet resolved. SANDAG management has developed system work arounds and are monitoring the system results on a regular basis to ensure errors created by the ETAN system are identified and corrected in the ERP system.

Potential Effect

The effect of immaterial differences between ETAN system reports and the ERP system result in potential immaterial errors in the ERP system and financial statements. The effect of limitations on collecting toll penalties has the effect of lost revenue for SANDAG.

Recommendation

We recommend SANDAG continue to research the differences between the ETAN and ERP systems to identify and correct errors. Additionally, SANDAG management should evaluate the Toll Back Office System to determine how to maximize toll penalty collections.

Management's Comments Regarding Corrective Actions Planned

SANDAG agrees that there are immaterial differences within the Back Office system between the customer database and financial reporting. SANDAG adjusts the financial reporting based on the customer database when reporting. Progress has been made to identify the source of the differences, but a few immaterial differences remain.

SANDAG is working toward changing back-office systems. The Board of Directors approved a cooperative agreement with Transportation Corridor Agencies (TCA) for back-office system tolling services on February 27, 2026. The transition to TCA is expected to take 12-14 months. The TCA system is already set up to process Department of Motor Vehicles (DMV) holds for unpaid violations.

During the transition to TCA, SANDAG will continue to utilize the ETAN system. The extended contract with ETAN dedicates more resources to financial reports and allows

for system fixes. SANDAG and ETAN will continue to monitor for differences between the customer system reports and ETAN financial reports on a monthly basis.

The following matters are not considered material weaknesses or significant deficiency in internal controls. However, as a service to you, we offer the following best practice recommendation to enhance internal controls of SANDAG:

(1) Accounts Payable Detail Reconciliation

During our audit, we noted that the trial balance produced by the ERP system did not agree to the accounts payable module's detailed Accounts Payable system reports for SANDAG Funds 11, 27, 58, 56, and 40. The immaterial differences were attributable to timing issues, including transactions recorded in the general ledger that were not captured in the Accounts Payable as of the date it was generated.

Recommendation

The Accounts Payable module is the basis for recording Accounts Payable and should agree to the trial balance. We recommend SANDAG further evaluate how the Accounts Payable transactions get recorded in the trial balance and ensure the systems are reconciled prior to the start of the annual audit. If it is not possible to reconcile the amounts, SANDAG should create a detailed monthly reconciliation to ensure the trial balance is accurate.

(2) Trial Balance Enhancements

During the audit for the fiscal year ended June 30, 2024, we noted the trial balance produced by the ERP system did not agree to the presentation of the account balances in the financial statements, primarily with the presentation of expenses. For example, ARJIS expenses are recorded in the ERP system at a summary level and then broken out into multiple expense categories for financial statement presentation. We continued to see this issue during the audit for the fiscal year ended June 30, 2025.

Recommendation

We recommend adding accounts to the ERP system to mirror the presentation in the financial statements. This would eliminate potential errors from manual adjustments made during the financial statement preparation process. Additionally, the financial statements should be supported by the ERP system, allowing for a better audit trail and ease of retaining historical data without additional explanation and support for the differences between the account balances.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether SANDAG's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

SANDAG's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on SANDAG's response to the findings identified in our audit and described above. SANDAG's

response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California
March 23, 2026