



Federal Awards Reports in
Accordance with the Uniform Guidance
June 30, 2022

**Southern California
Association of Governments**

Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Schedule of Expenditures of Federal Awards	6
Note to the Schedule of Expenditures of Federal Awards.....	8
Schedule of Findings and Questioned Costs	
Section I - Summary of Auditor’s Results.....	9
Section II - Financial Statement Findings	10
Section III - Federal Award Findings and Questioned Costs.....	11
Summary Schedule of Prior Audit Findings.....	12



Independent Auditor’s 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*

The Honorable Members of the Regional Council
Southern California Association of Governments

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, each major fund, and the aggregate remaining fund information of the Southern California Association of Governments (SCAG), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise SCAG’s basic financial statements, and have issued our report thereon dated January 31, 2023. Our report included emphasis of matter paragraphs regarding SCAG’s adoption of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, effective July 1, 2021 and restatement of beginning net position/fund balance for the correction of an error.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered SCAG’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 SCAG’s internal control. Accordingly, we do not express an opinion on the effectiveness of SCAG’s internal control.

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. *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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We identified a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether SCAG'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*.

SCAG's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on SCAG's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. SCAG'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.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
January 31, 2023



Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Honorable Members of the Regional Council
Southern California Association of Governments

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Southern California Association of Governments’ (SCAG) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of SCAG’s major federal programs for the year ended June 30, 2022. SCAG’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, SCAG complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of SCAG and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of SCAG’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to SCAG’s federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on SCAG's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about SCAG's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding SCAG's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of SCAG's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of SCAG's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of SCAG as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise SCAG's basic financial statements. We issued our report thereon dated January 31, 2023, which contained unmodified opinions on those financial statements. Our report included an emphasis of matter paragraph regarding SCAG's adoption of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*, for the year ended June 30, 2022. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Rancho Cucamonga, California
January 31, 2023

Southern California Association of Governments
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2022

Federal Grantor / Pass-through Grantor / Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Program / Project or Pass-through Identification Number	Total Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of Transportation</u>				
Direct Assistance:				
Public Transportation Research, Technical Assistance, and Training:				
Public Transportation Research - FTA 5312 (Sunline/SCAG)	20.514	CA-2016-027	\$ 680,537	\$ 670,215
Public Transportation Research - FTA 5312 (Metro/Foothill)	20.514	CA-2017-089	<u>137,609</u>	<u>137,609</u>
Subtotal - Public Transportation Research			<u>818,146</u>	<u>807,824</u>
Federal Transit Cluster:				
Bus and Bus Facilities Formula Program (FTA 5339-RTA)	20.526	CA-34-0030	751,070	751,070
Bus and Bus Facilities Formula Program (FTA 5339-ATN)	20.526	CA-2020-236-00	<u>1,970,346</u>	<u>1,970,346</u>
Subtotal - Federal Transit Cluster			<u>2,721,416</u>	<u>2,721,416</u>
Passed through the California Department of Transportation:				
Highway Planning and Construction Cluster:				
FHWA Metropolitan Planning	20.205	74A0822	19,779,863	-
FHWA Partnership Planning and Research	20.205	74A0822	675,003	-
FHWA Planning and Construction	20.205	ATPLNI-6049(018)	<u>9,581</u>	<u>9,581</u>
Subtotal - Highway Planning and Construction Cluster			<u>20,464,447</u>	<u>9,581</u>
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research:				
FTA 5303 Transit Technical Studies Grants	20.505	74A0822	12,820,293	-
FTA 5304 Discretionary Grants	20.505	74A0822	<u>450,596</u>	-
Subtotal - Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research			<u>13,270,889</u>	-
Passed through the California Office of Traffic Safety:				
Highway Safety Cluster:				
State and Community Highway Safety	20.600	PS21017	740,738	-
National Priority Safety Program	20.616	PS22017	<u>247,650</u>	-
Subtotal - Highway Safety Cluster			<u>988,388</u>	-
Total - U.S. Department of Transportation			<u>\$ 38,263,286</u>	<u>\$ 3,538,821</u>

Southern California Association of Governments
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2022

Federal Grantor / Pass-through Grantor / Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Program / Project or Pass-through Identification Number	Total Expenditures	Amount Provided to Subrecipients
<u>U.S. Department of Energy</u>				
Direct Assistance:				
Conservation Research and Development:				
DOE/NETL Clean Cities Outreach	81.086	DE-EE0009553	\$ 97,264	\$ -
Passed through the LA Cleantech Incubator:				
Conservation Research and Development:				
DOE/NETL Clean Cities Outreach	81.086	N/A	<u>4,046</u>	<u>-</u>
Total - U.S. Department of Energy			<u>101,310</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 38,364,596</u>	<u>\$ 3,538,821</u>

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of the Southern California Association of Governments (SCAG) under programs of the federal government for the year ended June 30, 2022. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of SCAG, it is not intended to and does not present the financial position, changes in net position of SCAG.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3 - Indirect Cost Rate

SCAG has not elected to use the 10% de minimis cost rate.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
Federal Transit Cluster	20.526
Highway Planning & Safety Cluster	20.205
Dollar threshold used to distinguish between type A and type B programs:	\$1,150,938
Auditee qualified as low-risk auditee?	Yes

Section II – Financial Statement Findings

2022-001

Financial Reporting

Type of Finding: Material Weakness

Criteria:

Management is responsible for the preparation and fair presentation of the financial statements. Management is responsible for ensuring that all financial records and related information is reliable and properly recorded.

Condition:

During our audit we identified the following misstatements:

- Prepaid expenses pertaining to the general fund totaling \$342,815 were erroneously included in construction in process in the prior year, thus causing an understatement to fund balance within the general fund.
- Capital assets totaling \$100,924 were not recorded in the prior year, resulting in an understatement of net position.

Cause:

SCAG's procedures did not include a timely review and reconciliation of equity. Further, account analysis and review of prepaids and capital assets did not identify the misstatements.

Effect:

Adjustments were necessary to fairly present the financial statements.

Context:

The condition was noted during our testwork of capital assets and fund balance.

Recommendation:

We recommend that SCAG review and strengthen its procedures over the review of transactions and the financial statements.

Views of Responsible Officials:

Management agrees with the finding. See attached corrective action plan.

Section III – Federal Award Findings and Questioned Costs

None reported.

None reported.



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Corrective Action Plan

Finding Summary:

During the performance of the FY 2021-22 audit Eide Bailly identified the following misstatements in the FY 2020-21 Financial Statements which required a prior period adjustment to be made in the FY 2021-22 financial statements:

- Prepaid expenses pertaining to the general fund totaling \$342,815 were erroneously included in construction in process in the prior year, thus causing an understatement of the fund balance within the general fund.
- Capital assets totaling \$100,924 were not recorded in the prior year, resulting in an understatement of net position.

Responsible Individual for the Implementation of the Corrective Action Plan:

Cindy Giraldo, Chief Financial Officer
Erika Bustamante, Deputy Finance Director, and Acting Controller

Corrective Action Plan:

Management has taken the following actions to ensure proper oversight is given to the recording of fixed assets and prepaid assets. In FY 2020-21, the responsibility of properly recording fixed assets was assigned to an accountant by the then Accounting Manager, Tom Phillip. Since that time, the responsibilities of fixed asset recording have been reassigned to a Senior Accountant. Further, the Accounting Manager's working title has been changed to Controller in order to recruit a qualified candidate more successfully for the position who will provide appropriate oversight of the work performed by a Senior Accountant.

Anticipated Completion Date:

The fixed assets recording responsibility has already been reassigned to a Senior Accountant and the recruitment for the Controller position is underway, with the goal to have a successful candidate identified in February 2023.