

Management, Honorable Members of the Authority Board of Directors,
and Independent Taxpayer Oversight Committee
Sacramento Transportation Authority 801 12th St., 5th Floor
Sacramento, California 95814

Dear Mr. Bewsey:

We have completed our consideration of the Sacramento Transportation Authority's (the "STA" or "Authority") compliance with the Measure A Ordinance from July 1, 2023, through June 30, 2025, conducted in accordance with generally accepted auditing standards and *Government Auditing Standards*. During the course of our auditing procedures, we identified certain matters which are deserving of your attention. These matters did not constitute reportable findings which are reported in our separately issued *Independent Accountants' Report on Agreed-Upon Procedures Applied to Measure A Compliance*; that report is dated _____, 2026. The matters described below are disclosed for the purpose of constructive feedback and to communicate opportunities for improvement and strengthening of the Authority's internal controls.

Current Year Recommendations

Finding 01 – City of Isleton – Lack of Support for Performance Audit and Reporting Deficiencies

Criteria

Under its funding agreements with the STA and applicable program requirements, the City of Isleton is required to:

- Maintain adequate financial and programmatic records;
- Provide timely and complete documentation in support of STA performance audits; and
- Submit required periodic reports to demonstrate compliance, eligibility, and appropriate use of allocated transportation funds.

Condition

The City of Isleton did not provide documentation or support necessary for STA to conduct a performance audit. City of Isleton staff turnover during the first quarter of Fiscal Year 2024–25 resulted in the complete loss of institutional continuity, and no required reporting has been submitted to STA since that time.

As a result, STA was unable to obtain sufficient, appropriate evidence to assess the City of Isleton's compliance with applicable performance, financial, and program requirements.

Subsequent to this lapse, the City of Isleton retained external executive-level consultants to stabilize operations, correct historical financial statements, complete outstanding audits, and implement improved governance and financial controls.

Cause

The lack of performance audit support and reporting was primarily caused by:

- Full turnover of City of Isleton staff in early FY 2024–25; and
- The absence of interim processes and inadequate staffing levels to ensure continuity of reporting and audit responsiveness.

Effect

Due to the unavailability of records and supporting documentation:

- STA cannot determine whether allocated transportation funds were used in compliance with program requirements;
- STA lacks assurance regarding the accuracy and completeness of reported financial and performance information; and
- Continued funding without additional oversight would pose an increased fiscal and compliance risk to STA.

Recommendation

We recommend the City of Isleton perform the following:

- Continue implementing corrective actions using its retained consultants;
- Reestablish compliant reporting and record-keeping systems;
- Provide timely and complete quarterly updates to STA; and
- Cooperate fully with future performance audit activities once records are available.

Management Response

Management concurs with the recommendation and is currently implementing corrective actions to restore financial reporting, strengthen governance practices, and improve record retention and compliance processes.

Finding 02 – City of Folsom – Reporting and Reconciliation Discrepancies

Criteria

Accurate financial reporting and sound internal controls require that:

- Reported expenditures reconcile to the underlying accounting records (general ledger).
- Financial data is based on finalized or “closed” accounting periods.
- Reconciliations are performed prior to submission to external entities.

These practices are consistent with standard internal control frameworks (e.g., COSO) and support the reliability of financial reporting.

Condition

Based on testing, the City of Folsom’s reported Measure A expenditures submitted to the STA did not reconcile to amounts recorded in the City of Folsom’s general ledger for the 2024-25 fiscal year. Variances were identified across multiple quarterly reports, and the differences were not consistent by quarter. To provide additional assurance, STA expanded its reconciliation testing of reported expenditures to the underlying general ledger for the full audit period, July 1, 2023, through June 30, 2025, and determined that the issue was limited to fiscal year 2024–25.

These discrepancies indicate that the amounts reported to STA differed from the City’s official accounting records at the time of audit review.

Cause

Based on available information, the discrepancies appear to be the result of one or more of the following internal control deficiencies:

- Reporting was generated from accounting periods that had not yet been formally closed; and/or
- Adjustments were made to the general ledger after submission of expenditure reports to STA; and/or
- Reconciliations between reported amounts and the general ledger were not consistently performed prior to submission.

Effect

The lack of reconciliation and control over reporting periods resulted in:

- Inconsistent reporting of expenditures across quarters
- Reduced reliability of financial information provided to STA
- Increased audit effort to identify and resolve discrepancies
- Potential risk that decision-makers rely on incomplete or inaccurate financial information

STA Oversight

To monitor corrective action, STA will review and reconcile reported expenditures for all reporting periods during the subsequent audit period.

Recommendation

The City of Folsom should strengthen internal controls over financial reporting by:

- Implementing procedures to ensure all reported expenditures reconcile to the general ledger prior

to submission.

- Requiring that reporting be based on closed accounting periods or clearly documented cutoff procedures.
- Establishing a formal review and approval process for all reports submitted to STA.
- Retaining documentation supporting reconciliations and any post-reporting adjustments.

Management Response

Pending

Finding 03 – Formal Review Process

Criteria

The STA Ordinance and Expenditure Plan require that Measure A expenditures be used in accordance with voter-approved purposes and program requirements. Although the Ordinance does not specifically require a formal annual expenditure review process, these provisions establish the Authority's responsibility to monitor and verify that expenditures are allowable, properly supported, and compliant with Measure A requirements.

Condition

Currently on an annual basis STA Staff report to the Board on the Ongoing Program activity by jurisdiction. Upon review there has been an accumulation of jurisdiction program balances over time. Additionally, it was observed during testing that the Authority does not have well defined procedures for monitoring the progress of capital improvement expenditures in relation to the expenditure plan.

Cause

The Authority has not established formal written procedures or monitoring controls for reviewing local agency expenditures charged to Measure A allocations.

Effect

Without formalized expenditure review and monitoring procedures, the Authority may be unable to consistently demonstrate that Measure A expenditures are allowable, properly supported, timely incurred, and compliant with voter-approved requirements and Maintenance of Effort provisions. This increases the risk of unsupported or noncompliant expenditures, inconsistent oversight among local agencies, and reduced transparency and accountability over the use of Measure A funds.

Recommendation

We recommend the following:

- 1) We recommend that the Authority implement a formal review process, no less than annually, for reviewing that the expenditures charged by the local agencies against their Measure A Ongoing allocations meet timing requirements and the related maintenance of effort requirements are met.
- 2) We recommend that the Capital Improvement Project expenditures are tracked in accordance with the overall Ordinance programmatic requirements.
- 3) We recommend that the Authority amend the agency memorandums of understanding for Measure A Ongoing Annual Programs, as they renew, to include the agency memorandums of understanding for Measure A Ongoing Annual Programs to include annual reporting requirements related to timing and maintenance of effort.

Management Response:

- 1) Staff in cooperation with the ITOC added an explicit Maintenance of Effort test to the fiscal year 2023-25 audit. Additionally, staff have added language to the contract templates related to maintenance of effort requirements. Staff revised its annual board reporting format in September 2025 to show ongoing Measure A fund balances and their percent of annualized revenues with color coding from green to red to highlight relative fund balance levels
- 2) Authority staff are currently working on a more robust CIP tracking methodology to appropriately track program expenditures to the overall Ordinance. Staff anticipate this process will be finalized in early fiscal year 2026-27. Authority staff have also undertaken the implementation of a more

- robust enterprise resource planning (ERP) system to track expenditures at various levels.
- 3) Memorandums of understanding for the Ongoing Annual Programs renew on a five-year basis, the most recent cycle was signed on July 1, 2023. During the next renewal cycle, this will be added.

Finding 04 – Program Integrity and Performance

Criteria

The STA Expenditure Plan requires that Measure A funds be expended for voter-approved transportation programs and projects and that program implementation be monitored to ensure accountability and performance.

Condition

It was noted that ongoing allocation funds at the program level exceeded the expenditures during the period under review, resulting in a growth of average remaining balances from 2018 of 34.8% to 173.9% of annual revenue to 67.9% to 263.2% of annual revenue in 2023. While some fluctuation in the timing of the use of funds is expected, we would expect those fluctuations to average out over time. We recommend that the Authority collaborate with local jurisdictions to ensure program performance, reducing the program balances, and provide reports to the board no less than annually on the expenditure of ongoing funding.

| Ongoing Funding Balance as a Percentage of Annual Funding Provided | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|
| | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| Traffic Control and Safety Program | 158.4% | 137.7% | 154.4% | 166.6% | 183.9% |
| Safety, Streetscaping, Pedestrian, and Bicycle Facilities | 173.9% | 225.4% | 221.0% | 247.2% | 263.2% |
| City Street and County Road Maintenance | 34.8% | 36.2% | 51.1% | 61.7% | 67.9% |

Cause

The Authority had not established formal reporting requirements or monitoring procedures for all ongoing funding programs to periodically evaluate whether expenditures were keeping pace with annual funding allocations. In addition, some local jurisdictions did not consistently provide periodic program expenditure reports, limiting the Authority’s ability to monitor program performance and identify growing fund balances in a timely manner.

Effect

As ongoing funding allocations exceeded expenditures over multiple years, program fund balances continued to accumulate. Without consistent monitoring and reporting, the Authority may be unable to determine whether funds are being utilized timely and effectively for voter-approved purposes, increasing the risk of delayed project delivery, inefficient use of Measure A resources, and reduced transparency regarding program performance and expenditure activity.

Recommendation

We recommend that the Authority implement requirements to local jurisdictions to ensure program integrity and performance and provide reports to the board quarterly on the expenditure of ongoing funding.

Management Response: Authority staff reported the first of the Ongoing Program balance reports during the September 2025 board meeting. Agencies have completed a Traffic Control and Safety Five-Year Program for Fiscal Years 2023-2024 through FY 2027-2028. In FY 2026-2027, STA will be asking for updated Five-Year Reports for all programs.

Status of Prior Year Recommendations

1 – We recommend that the Authority implement a formal review process for reviewing that the expenditures charged by the local agencies against their Measure A allocations are for appropriate purposes, meet timing requirements, and the related maintenance of effort requirements are met. We recommend that the Authority amend the Ordinance to include annual reporting requirements related to timing and maintenance of effort.

Recommendation: Currently on an annual basis STA Staff report to the Board on the Ongoing Program activity by jurisdiction. Upon review there has been an accumulation of jurisdiction program balances over time. Additionally, it was observed during testing that the Authority does not have well defined procedures for monitoring the progress of capital improvement expenditures in relation to the expenditure plan.

- 4) We recommend that the Authority implement a formal review process, no less than annually, for reviewing that the expenditures charged by the local agencies against their Measure A Ongoing allocations meet timing requirements and the related maintenance of effort requirements are met.
- 5) We recommend that the Capital Improvement Project expenditures are tracked in accordance with the overall Ordinance programmatic requirements.
- 6) We recommend that the Authority amend the agency memorandums of understanding for Measure A Ongoing Annual Programs, as they renew, to include the agency memorandums of understanding for Measure A Ongoing Annual Programs to include annual reporting requirements related to timing and maintenance of effort.

Management Response:

- 4) Staff in cooperation with the ITOC added an explicit Maintenance of Effort test to the fiscal year 2023-25 audit. Additionally, staff have added language to the contract templates related to maintenance of effort requirements. Staff revised its annual board reporting format in September 2025 to show ongoing Measure A fund balances and their percent of annualized revenues with color coding from green to red to highlight relative fund balance levels
- 5) Authority staff are currently working on a more robust CIP tracking methodology to appropriately track program expenditures to the overall Ordinance. Staff anticipate this process will be finalized in early fiscal year 2026-27. Authority staff have also undertaken the implementation of a more robust enterprise resource planning (ERP) system to track expenditures at various levels.
- 6) Memorandums of understanding for the Ongoing Annual Programs renew on a five-year basis, the most recent cycle was signed on July 1, 2023. During the next renewal cycle, this will be added.

Current Year Status: In progress. Refer to Finding 03.

2 – We recommend that the Authority consider a policy that limits the execution of new project contracts until the agency has expended a substantial amount of the current contract.

Recommendation: It was noted in 4 of the 5 projects tested that the contracts had been extended beyond the initial contract date. We recommend that the Authority consider a policy that limits the execution of new project contracts until the agency has expended a substantial amount of the current contract. The following is a breakdown of the projects and their extensions:

| Project | Sub Project | Extension Period |
|--|--------------------------------------|------------------|
| Sunrise Blvd. Placer Co. to Grant Line Rd. | Jackson Road to Grant Line Road | 4 years |
| Watt Ave. Antelope - Capital City Freeway | Antelope Road - Capital City Freeway | 4 years |
| Richards Blvd. I-5 Interchange | Richards Blvd. I-5 Interchange | 9 years |
| Hazel Ave. Placer County to Folsom Blvd. | Highway 50 to Madison Ave. | 4 years |

Management Response: Authority staff will work with the Independent Taxpayer Oversight Committee

(ITOC) to evaluate contract extensions more thoroughly when they are requested. The ITOC will either request the agency requesting the extension to present or provide an explanation of the project delays.

Current Year Status: Resolved.

3 – We recommend that the Authority implement requirements to local jurisdictions to ensure program integrity and performance and provide reports to the board quarterly on the expenditure of ongoing funding.

Recommendation: It was noted that ongoing allocation funds at the program level exceeded the expenditures during the period under review, resulting in a growth of average remaining balances from 2018 of 34.8% to 173.9% of annual revenue to 67.9% to 263.2% of annual revenue in 2023. While some fluctuation in the timing of the use of funds is expected, we would expect those fluctuations to average out over time. We recommend that the Authority collaborate with local jurisdictions to ensure program performance, reducing the program balances, and provide reports to the board no less than annually on the expenditure of ongoing funding.

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| City Street and County Road Maintenance | 34.8% | 36.2% | 51.1% | 61.7% | 67.9% |

Management Response: Authority staff will implement policy and procedures to require five-year programs from Entities receiving Measure A funds from the Safety, Streetscaping, Pedestrian, and Bicycle Facilities and the City Street and County Road Maintenance programs. Ongoing program balances will be reported to the board on a minimum of an annual basis. Additionally, the Board will receive statistical information about the balances that their agencies are holding and appropriate reviews by Authority staff and the ITOC will be conducted. Authority staff will collaborate with agency staff to reasonable spending levels.

Current Year Status: In process. See Finding 04.

4 – The Authority uses three methods for projecting revenues, based on their nature. Measure A Sales Taxes are projected through 2039 with the help of a consultant, who updates their forecasts based on a proprietary method semi-annually. Measure A Impact Fees were forecasted by a consultant in August 2021 with projected revenues through 2039, with updates planned every three to five years. Interest is projected by STA staff using annual data and historical expected return rates.

Recommendation: Specifically related to the Measure A Impact Fees; we recommend that the Authority could strengthen their projections by having a formal process for performing a retrospective review of the projections at each period end to assess the reasonableness of the assumptions and better build projections for the future. Since the Measure A Impact Fees are only forecasted every three to five years, the interval between projections leaves significant variability between the outdated projections and actual results.

Management Response: Authority staff will develop a more dynamic forecasting method that considers more attributes. Development fee projections are performed by consultants and require significant time to project. Projects timing is often uncertain, fee collection is not predictable. Considering these factors is important in projections, therefore a purely historical receipt approach will not yield good results.

Current Year Status: Resolved.

The above matters have been previously discussed with the Authority's Finance Department, during our final exit conference, which was held on **January 21, 2025**. Should any questions arise about these matters, we will be available for further discussion.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
_____, 2026