

**CITY OF CUPERTINO,
CALIFORNIA**

SINGLE AUDIT

Year ended June 30, 2022

CITY OF CUPERTINO
Cupertino, California

SINGLE AUDIT
Year ended June 30, 2022

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**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**

To the Honorable Mayor and City Council
City of Cupertino, California

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, each major fund, and the aggregate remaining fund information of the City of Cupertino, California (the City), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 31, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. However, material weaknesses or significant deficiencies may exist that have not been identified.

(Continued)

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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*.

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.


Crowe LLP

Costa Mesa, California
March 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**

To the Honorable Mayor and City Council
City of Cupertino, California

Report on Compliance for Major Federal Program

Opinion on Major Program

We have audited the City of Cupertino, California (the City's) 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 the City's major federal program for the year ended June 30, 2022. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

Basis for Opinion on 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; 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 the City 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 the major federal program. Our audit does not provide a legal determination of the City'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 the City's federal programs.

(Continued)

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 the City'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 the City'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 the City'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 the City'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 the City'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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a material weakness.

(Continued)

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 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.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The City is responsible for preparing a corrective action plan to address each audit finding included in our auditor's report. The City's corrective action plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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, the business-type activities, each major fund, and the aggregate remaining fund information as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 31, 2023, which contained unmodified opinions on those financial statements. 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 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.


Crowe LLP

Costa Mesa, California
March 31, 2023

CITY OF CUPERTINO, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2022

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Agreement Number / Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development				
CDBG – Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218	B21MC060057	\$ 449,312	\$ 373,106
Program Income	14.218	N/A	7,943	-
COVID-19 - CDBG	14.218	N/A	<u>113,716</u>	<u>-</u>
Total U.S. Department of Housing and Urban Development			<u>570,971</u>	<u>373,106</u>
U.S Department of Treasury				
COVID-19 - American Rescue Plan Act of 2021	21.027	N/A	<u>3,594,028</u>	<u>-</u>
Total U.S. Department of Treasury			<u>3,594,028</u>	<u>-</u>
U.S. Department of Transportation				
Passed through the State of California Department of Transportation				
Highway Planning and Construction Cluster				
Highway Safety Improvement Program (HSIP)	20.205	HSIPL-5318 (030)	<u>9,290</u>	<u>-</u>
Total U.S. Department of Transportation			<u>9,290</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 4,174,289</u>	<u>\$ 373,106</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF CUPERTINO, CALIFORNIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2022

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Cupertino, California (the City) for the year ended June 30, 2022. The information in this schedule 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 City's operations, it does not present the financial position, changes in net position, or cash flows of the City.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The City has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 - MAJOR PROGRAMS

In accordance with the Uniform Guidance, major programs for the City are individual programs or a cluster of programs determined by using a risk-based analysis. The threshold for distinguishing Type A and Type B programs was \$750,000 and \$187,500, respectively. Awards from the CDBG-Entitlement Grants Cluster and Highway Planning and Construction Cluster are designated as clusters of programs.

NOTE 4 - NON-CASH ASSISTANCE

The City had no non-cash assistance during the year.

NOTE 5 - FEDERAL INSURANCE

The City had no Federal Insurance in force during the year.

CITY OF CUPERTINO, CALIFORNIA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

 X Yes _____ No

Significant deficiencies identified not considered to be material weaknesses?

_____ Yes X None reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 X Yes _____ No

Identification of major federal programs:

Federal Assistance Listing Number

Name of Federal Program or Cluster

21.027

COVID-19 – American Rescue Plan Act of 2021

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

_____ Yes x No

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

(Continued)

CITY OF CUPERTINO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2022

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 2022-001 – CONTROLS AND NONCOMPLIANCE OVER REPORTING

Federal Department: Department of Treasury
Assistance Listing Number(s):21.027
Program Name(s): COVID-19 – American Rescue Plan Act of 2021
Questioned Costs: None

Criteria

Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, section 303(a) states, the non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). These would include segregation of duties over report preparation and submission to ensure compliance with deadline requirements. Additionally, per the “Compliance and Reporting Guidance – State of Local Fiscal Recovery Funds” published by the U.S. Department of Treasury, the Interim Report is required to be submitted by August 31, 2021, while the Project and Expenditure Report is required to be submitted by April 30, 2022 and then annually thereafter.

Condition

During our assessment of the control activities for the American Rescue Plan Act of 2021 (ARPA), we observed that the City did not have a control in place to ensure proper segregation of duties between report preparation, approval and submission to the US. Department of Treasury, as well a control to ensure timely submission of ARPA reports. As such, the required Project and Expenditure report was not submitted on a timely basis.

Questioned Costs

None

Context

The City is required to submit an Interim Report and also a Project and Expenditure Report. For the Interim Report, there was no control in place to ensure segregation of duties between the report preparer and the report reviewer, although we did not note any exceptions in the data submitted by the City and the report was submitted timely. For the Project and Expenditure Report, there also was no control in place to ensure segregation of duties between the report preparer and the report reviewer, with the City not submitting the report (which had a due date of April 2022) until January 2023. However, we did not note any exceptions in the data submitted by the City in the Project and Expenditure Report.

Effect

Failure to implement sufficient internal controls to ensure the timely filing of reports in accordance with federal regulations could result in the program being noncompliant with federal statutes, regulations and the terms and conditions of the federal awards.

Cause

The City did not implement an effective control to ensure reports had proper segregation of duties and that reports were submitted timely. In addition, the City wasn’t aware that a Project and Expenditure was required to be submitted.

(Continued)

CITY OF CUPERTINO, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2022

Identification as a Repeat Finding, if Applicable

N/A

Recommendation

We recommend the City revisit its control design and revise its procedures to ensure proper controls over preparation, review and submission of ARPA reports and also ensure the timely submission of all reports.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan.

CITY OF CUPERTINO, CALIFORNIA
SCHEDULE OF PRIOR YEAR FINDINGS
Year ended June 30, 2022

None.



ADMINISTRATIVE SERVICES DEPARTMENT

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SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONS COSTS FINDING 2022-001 – CONTROLS AND NONCOMPLIANCE OVER REPORTING

Management's Response

Management agrees with the findings and has developed the plan below to improve our controls

Plan

1. Added additional staff to the Treasury COVID-19 Relief Hub (Richard Wong, Accountant II)
2. Filed March 2022 Annual SLFRF Compliance Report with the Treasury in January 2023
3. Added the Finance Team group email also to ensure various staff would receive reminder emails on reporting so that we can stay current on filing the report for compliance.

Anticipated Date of Completion – report submission completed.

Name of Contact Person – Janet Liang, Richard Wong and finlist@cupertino.org