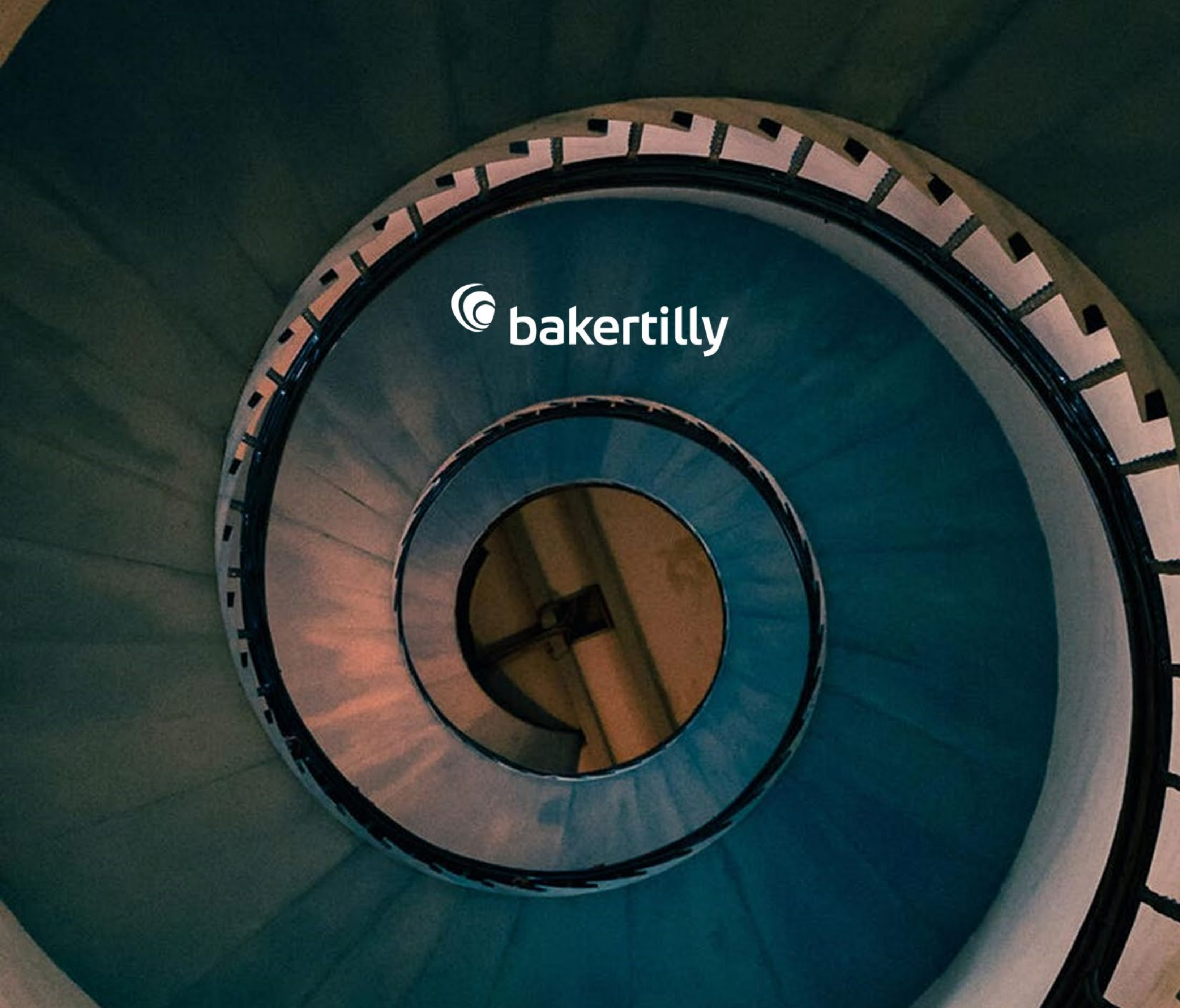

As of June 3, 2025, Moss Adams LLP has merged with Baker Tilly.

FINAL REPORT

City of Cupertino

GRANTS MANAGEMENT INTERNAL CONTROLS REVIEW

July 20, 2026

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Table of Contents

I. Executive Summary

The City of Cupertino (the City) contracted Baker Tilly to assess the internal controls over the City's grants management activities for compliance with policies and procedures and best practices. This included reviewing the application, review, administration, and reporting processes as well as assessing the overall adequacy of the grants management function. The internal controls review took place between June and October 2025.

As of June 30, 2024, the City's operating grants and contributions constituted approximately 25% of its total program revenues, or $8,350,734 out of $34,401,318. Grants management typically encompasses processes such as grant application and award administration, compliance monitoring, expenditure tracking, documentation and recordkeeping, and financial reporting. These processes are essential to ensure that grant funds are used in accordance with grantor requirements and applicable regulations. Effective internal controls over grants management are critical for safeguarding grant resources, maintaining accurate financial records, and supporting the integrity of the City's Annual Comprehensive Financial Report (ACFR). Implementing comprehensive controls helps mitigate risks of misstatement, noncompliance, and misappropriation of funds, ultimately enhancing the City's financial accountability and transparency to stakeholders.

The City currently employs a primarily decentralized approach to grants management, where individual programs and departments are responsible for the end-to-end management of their respective grants. This includes administering grant application and award, monitoring compliance, tracking and approving expenditures, preparing and submitting required reports, and maintaining documentation in accordance with grantor requirements and applicable regulations. The Finance Department provides centralized financial support by tracking grant revenues and budgets within the Enterprise Resource Planning (ERP) system and producing budget-to-actual reports to assist departments in financial oversight. While many departments maintain organized electronic folders and utilize spreadsheets for grant tracking, these practices vary and are not fully standardized or integrated across the City.

Recognizing opportunities to strengthen internal controls and improve consistency, the City is planning to hire a Grants Management Analyst to formalize and centralize key aspects of the grants management function. This role is expected to support standardized grant opportunity identification and monitoring, enhance documentation and recordkeeping practices, enforce segregation of duties, and coordinate training programs.

The review of internal controls was completed in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants (AICPA). As such, this work was not an audit of internal controls that resulted in a formal opinion or other form of assurance.

Specific areas where controls were reviewed included:

- Grant Application and Award Approval
- Compliance Monitoring and Reporting
- Expenditure Authorization and Tracking
- Documentation and Recordkeeping

- Financial Reporting and Reconciliation
- Overall Grants Management Control Environment

Specific departments where controls were reviewed included the Finance, Public Works, and Housing Division departments. These departments were selected for review due to their critical roles in the City's grants management environment. Finance is responsible for supporting accounting, financial reporting, and budget monitoring for all City grants, providing centralized financial oversight. Public Works and the Housing Division were selected because they receive and administer a substantial portion of the City's overall grant funding, making their grant management practices particularly impactful on the City's financial accountability and compliance.

The City appeared to have internal controls developed for many grants management functions and was in the process of implementing additional internal controls in this area. Per interviews, the planned hiring of the Grants Management Analyst is to help formalize the grants management function and to assist in implementing these additional internal controls. Based on the review performed, the following are examples of commendable activities that appeared to have well-designed internal controls:

- The City requires City Manager approval for grant applications, supporting executive oversight.
- Departments seemed to maintain organized electronic folders for grant documentation, aiding record retention and audit readiness.
- Finance tracks grant revenues and budgets within the ERP system, facilitating centralized financial management.
- Project managers are generally responsible for monitoring grant expenditures and compliance, providing operational accountability.
- A quarterly grants tracking spreadsheet is maintained and reviewed to monitor statuses and deadlines, supporting timely reporting.
- Segregation of duties appeared to be practiced in invoice review and approval, reducing risk of errors or unauthorized transactions.
- Recruitment of a Grants Management Analyst appeared aimed at centralizing oversight and enhancing internal controls.
- The City's grant reimbursement packets undergo multiple levels of review before submission, supporting accuracy.
- Training resources from federal agencies appeared to be utilized to educate staff on grant compliance requirements.
- Departments appeared to prepare handoff lists to mitigate risks associated with staff turnover.

Similar to many other cities, there is an opportunity to strengthen controls, policies and procedures, and documentation. While our review identified gaps in internal controls of varying degrees across the departments reviewed, it is important to acknowledge that the City appeared to have internal controls developed for many functions. However, enhancing the documentation of these controls will strengthen this foundation and promote greater consistency and effectiveness in operations.

Suggested priorities to address over the next six to 18 months include, but are not limited to:

- **Develop and Implement Standardized Grants Management Policies and Procedures and Continuity Plans**
  - Establish comprehensive, documented grants management policies and procedures that apply to all departments, including those with limited grant activity, to ensure consistency and reduce reliance on informal practices.
  - All departments should develop continuity plans and implement cross-training and handoff lists to maintain grant management activities during staff absences or transitions.
- **Centralize Grant Opportunity Identification and Monitoring**
  - Centralize the process for identifying, tracking, and communicating grant opportunities, using a consolidated system to ensure departments are aligned with City priorities and deadlines.
- **Enhance Grant Tracking and Documentation Practices:**
  - Departments should maintain dedicated tracking spreadsheets and complete electronic grant files for each active grant, and the City should conduct regular oversight to verify that documentation is accurate and complete.
- **Standardize and Enforce Segregation of Duties Across Departments:**
  - Departments should clearly define and separate responsibilities for key grant management activities, and where staffing is limited, use compensating controls such as supervisory review or independent reconciliation.
- **Standardize Grant Documentation and Recordkeeping Policies:**
  - Implement formal policies for organizing, retaining, and securing grant documents, and use a centralized electronic folder structure to improve accessibility and audit readiness.
- **Implement Structured Grant Management Training Programs:**
  - Provide mandatory, tailored training for all staff involved in grant management, covering internal processes, compliance requirements, and best practices, with periodic refresher courses.
- **Formalize Grant Application and Approval Workflows:**
  - Standardize the workflow for grant application preparation and approval, ensuring that required executive authorizations are consistently documented and retained.
- **Establish Consistent Internal Review and Approval Processes for Grant Reporting:**
  - All grant reports and reimbursement requests should be subject to formal internal review and approval, with designated reviewers and documentation of the approval process.
- **Strengthen Subrecipient Monitoring and Documentation:**
  - Distribute monitoring responsibilities for subrecipients, maintain complete documentation of contracts and payments, and formalize Council approval and payment tracking procedures.

II. Scope and Methodology

The scope of our grants management internal controls review included an evaluation of the City's key grants management internal controls, to determine the general adequacy of internal controls and identify areas warranting more in-depth review in the future. Our review included the following functional areas:

- Grant Application and Award Approval
- Compliance Monitoring and Reporting
- Expenditure Authorization and Tracking
- Documentation and Recordkeeping
- Financial Reporting and Reconciliation
- Overall Grants Management Control Environment

For each functional area assessed, we conducted a review of key controls which included:

- Identifying control objectives in specific areas and controls that would satisfy each objective
- Reviewing policies and procedures
- Examining relevant documentation in support of select key controls
- Performing control walkthroughs to observe the design of key controls and understand workflow processes
- Obtaining an understanding of the characteristics of each relevant control activity, including who performs it, how often it is designed to operate, whether it is designed to mitigate fraud, whether it is a manual or programmed (automated) control, and whether it is a preventive, detective, or corrective control
- Assessing whether the controls in place would prevent or detect errors
- Providing recommendations on key controls that need to be implemented or changed

The work performed included interviews with employees involved in managing functions and processing key transactions in the following departments:

- Finance
- Public Works
- Housing Division

In addition to the interviews conducted, the following procedures performed to assess compliance with controls and policies related to grants management:

- A sample of nine grants received by the City and five subrecipient grants awarded by the City, were assessed for adherence to select applicable control and policy requirements
- The sample of nine grants received was evaluated for proper application procedures, documentation, expenditure tracking, and compliance with select established grant management controls and policies
- The sample of five subrecipient grants was assessed for proper authorization and monitoring

In support of the internal controls review, the matrix in Section III provides results and includes:

- Control objectives
- Control issues
- Corresponding recommendations
- Likelihood of occurrence
- Impact of occurrence

“Likelihood of occurrence” is defined as the probability of a negative event occurring. “Impact of occurrence” is defined as the level of significance if a negative event occurs. Risk levels of low, moderate, or high were used to rate the likelihood and impact of occurrence for each control issue.

Beyond the controls noted within this report as an issue, additional controls were reviewed without exception. It should be noted that many controls were reviewed multiple times in relevant, separate department reviews, but not all controls or departments were reviewed. The departments selected provide a broad understanding of the City’s grants management control environment. Key controls with exception conditions are reported in this document.

III. Internal Controls Review

NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	OCCURRENCE LIKELIHOOD	IMPACT OF OCCURRENCE
Overall Grants Management Controls					
1	Grant management processes are formalized and consistent across departments, regardless of grant volume or diversity in purpose, funding source, or dollar amount. Whether a department manages a large federal infrastructure grant, a small community funding grant, or any other type of grant with varying requirements and funding levels, it follows standardized policies and procedures to ensure effective oversight, compliance, and accountability.	The City currently lacks formal, City-wide grants management policies and procedures (P&Ps). As a result, departments with low grant volume or specialized grants, such as Planning and Information Technology (IT), rely heavily on informal practices and individual knowledge. This increases continuity risks during staff absences or transitions. While larger departments may have more established practices, the absence of City-wide P&Ps disproportionately affects smaller departments, highlighting the need for both City-wide policies and tailored departmental procedures to ensure consistent and resilient grants management.	The City should develop and implement standardized, City-wide grant management policies and procedures to provide a consistent framework for all departments. While some departments currently manage grants more frequently, their department-specific procedures are not formally documented and should be formalized to ensure consistency and accountability. Additionally, departments with limited grant activity, such as Planning and IT, should create tailored procedures that clearly define roles, responsibilities, and specific processes for grant application, monitoring, and reporting to ensure compliance with City-wide policies and reduce reliance on individual knowledge. All departments should also establish formal grant management continuity plans that include comprehensive documentation, cross-training, and periodic knowledge transfer sessions. This approach will help ensure seamless continuation of grant management activities during staff absences or transitions, reducing operational risks and enhancing organizational resilience.	High	High
2	Grants management functions, including grant opportunity identification	Grants management functions are decentralized, with grant opportunity identification relying	The City should centralize certain grants management functions, potentially under the planned Grants Management Analyst	High	High

NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	OCCURRENCE LIKELIHOOD	IMPACT OF OCCURRENCE
	and monitoring, are centralized to improve oversight, coordination, and control and alignment with City priorities.	on informal networks and disparate departmental processes. This increases the risk of inconsistent controls, missed funding opportunities, and lack of strategic alignment across departments.	position. This centralized function should include formalized grant opportunity identification and monitoring through a consolidated database or tracking system that captures available grants, deadlines, eligibility criteria, and application status. Regular communication and updates should be provided to all departments to ensure alignment with City priorities and reduce the risk of missed opportunities. This communication and decision-making process should be documented to ensure grant applications and acceptances align with City priorities and Council direction. Centralization will improve consistency in policies and procedures, enhance oversight, and support strategic resource allocation.		
3	All grants received, including report due dates, period of availability and budget-to-actual financial data, are consistently tracked throughout their lifecycle. Comprehensive grant reporting packets are maintained electronically, in a centralized repository, and contain all grant-related documentation, such as applications, contracts, invoices, and approvals.	The City does not track all key grant information in a consistent manner and does not deploy a centralized repository to maintain complete grant reporting packets resulting in missing grant documentation. Our testing found that four of nine grants received were not supported by a dedicated tracking spreadsheet. In addition, all nine grant reporting packets lacked complete documentation. Missing items included things such as grant applications, executed contracts, and documented approvals.	The City should require all departments to maintain dedicated, up-to-date tracking spreadsheets for each active grant that consistently capture key grant information, such as report due dates, period of availability, and budget-to-actual financial data. In addition, departments should include required supporting documents such as invoices and signed agreements, in their grant reporting packets. All grant tracking spreadsheets and supporting documentation should be stored electronically and in a centralized repository to ensure consistency, accessibility, and audit readiness across the organization. To ensure consistent adherence, the City should establish regular oversight	Moderate	Moderate

NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	OCCURRENCE LIKELIHOOD	IMPACT OF OCCURRENCE
			mechanisms, such as periodic audits or reviews, to verify that all grants are actively tracked, and that required documentation is properly retained across all departments. This approach will address root causes by promoting accountability, reducing risks of incomplete or inaccurate reporting, and supporting compliance with grantor requirements.		
4	Segregation of duties is established and consistently applied in grant management activities.	Segregation of duties appears to vary by department and grant type; smaller grants or community funding appear to often be managed entirely by one individual, increasing the risk of errors or misappropriation.	The City should require that all departments that manage grants adequately segregate duties. Multiple individuals should participate in critical grant management activities such as application approval, expenditure authorization, and reporting. In cases where staffing is limited, compensating controls such as periodic supervisory reviews or independent reconciliations, should be implemented. All roles and responsibilities should be clearly defined in the City-wide grants management policies and procedures to ensure that no one individual is responsible for incompatible duties.	High	Moderate
5	Grant tracking and monitoring systems are integrated, comprehensive, and efficient.	Departments primarily use spreadsheets or electronic folders for grant tracking, lacking integration with financial systems and detailed compliance checkpoints.	An assessment of current grant tracking practices and available technology solutions should be conducted to identify opportunities for improved integration and efficiency. Implementing a centralized grant management system, or enhancing existing ERP functionalities, can provide significant benefits, such as enabling real-time tracking of grant applications, budgets, expenditures, compliance requirements,	High	Moderate

NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	OCCURRENCE LIKELIHOOD	IMPACT OF OCCURRENCE
			and reporting deadlines. System integration can also improve data accuracy, reduce manual entry errors, and support comprehensive monitoring and reporting of grant performance. If implementing a new system or enhancing ERP functionalities is not feasible at this time, the City should establish a centralized electronic repository for grant files and tracking spreadsheets, which may help address finding number six below. This repository should be accessible to all relevant staff and used to consistently maintain tracking spreadsheets and to store key grant documentation, including applications and related approvals, budgets, expenditure support, grant reports and supporting documentation, and other support to demonstrate compliance with grant requirements. Centralizing grant documentation in this manner will improve data accuracy, streamline oversight, support compliance, and enhance monitoring of grant performance.		
6	Grant recordkeeping is standardized, accessible, and secure.	Based on interviews, most departments appear to have processes in place to store documentation electronically, but there is a lack of standardized organization and retention policies across departments, potentially posing challenges during audits or staff transitions. Currently, based on interviews, there is no centralized City-wide file location or standardized file	Formal policies governing the organization, retention, and security of grant-related documentation are essential. These policies should specify document types to be retained, retention periods in compliance with legal and grantor requirements, and procedures for secure storage and disposal. Implementing a centralized repository for electronic document management with standardized folder structures, version control, and role-based access permissions	Moderate	Moderate

NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	OCCURRENCE LIKELIHOOD	IMPACT OF OCCURRENCE
		structure for retaining grant documents; instead, each department is responsible for establishing and maintaining its own documentation on individual drives.	will enhance accessibility and protect sensitive information. Regular audits of documentation practices should be conducted to ensure compliance and audit readiness.		
7	Staff receive structured training on grant management and compliance requirements.	Grant-related training appears to be minimal and mostly self-directed or external; limited internal training may lead to inconsistent knowledge, reliance on informal learning, and grant noncompliance.	A comprehensive internal training curriculum focused on the City's specific grant management processes, appropriate uses of grant funds, compliance obligations, and best practices should be designed and rolled out. Training should be mandatory for all staff involved in grant activities and cover topics such as federal and state grant regulations, internal control requirements, documentation standards, and use of grant management systems. Incorporating refresher courses and updates on regulatory changes will further enhance staff competency, reduce reliance on informal learning, and promote consistent policy application across departments. This will improve staff competency, consistency, and reduce compliance risks.	Moderate	Moderate
8	Grant application and approval processes are formalized and documented.	Application approvals require City Manager authorization but appear to lack formal workflows and standardized documentation, risking inconsistencies and accountability gaps. Of the nine grants tested, four did not have documentation supporting that the City Manager approved the	Formalized workflows for grant application preparation, approval, and submission should be developed, clearly delineating required review steps, responsible parties, and approval thresholds. City Manager authorization and other executive approvals must be consistently documented in writing and retained in the grant file. Utilizing standardized forms or electronic workflow tools will facilitate	Moderate	Low

NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	OCCURRENCE LIKELIHOOD	IMPACT OF OCCURRENCE
		related grant application.	tracking and audit trails. These measures will improve accountability, reduce inconsistencies, and support effective governance over grant pursuits.		
9	Grant reporting undergoes consistent internal review and approval prior to submission.	Review processes vary widely; some departments have formal departmental reviews, others submit reports directly with minimal internal review, increasing risk of errors or noncompliance.	Standardized procedures requiring all grant reports, reimbursement requests, and related submissions to undergo formal internal review and approval should be implemented. This process must include verification of compliance with grant terms, accuracy of financial data, and completeness of supporting documentation. Designated reviewers and approvers with appropriate expertise and authority should be assigned, and documentation of reviews and approvals maintained. Consistent application of these procedures will reduce errors and enhance compliance.	Moderate	Moderate

Management Response to Overall Grants Management Control Issues and Recommendations

Since the time of this review, the City has hired a Management Analyst and has implemented:

- An updated Citywide Grants Policy governing grant application and approval authority and overall grants guidance
- Formalized grant opportunity identification, monitoring, review and communication with departmental staff

The City is currently developing with plans of release in 2026:

- Standardized internal grants management policies and procedures to clarify roles and responsibilities across the grant lifecycle including application, approvals, budgeting, monitoring, reporting and closeout
- Staff training to ensure comprehensive understanding of internal grants management procedures and support with accurate recordkeeping.
- Processes for documentation of application approvals

The state and federal grants landscape continue to evolve and the City is committed to retaining active awareness, adapting as appropriate and ensuring the internal controls for grants fit the City's needs.

NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	OCCURRENCE LIKELIHOOD	IMPACT OF OCCURRENCE
Public Works					
1	Grant applications require documented review and approval by the Transportation Director and City Manager prior to submission.	Two of five tested grant applications lacked evidence of City Manager approval, leading to potential non-compliance with City policies and unauthorized commitments of City resources.	See Control Issue #8 in the Overall Grants Management Controls section.	High	Moderate
Management Response to Public Works Control Issues and Recommendations					
	Since the preparation of this report, the City has hired a Grants Analyst, enhancing staff's capacity to effectively manage grant processes and ensure compliance with City policies.				
Housing/Community Development Block Grant					
1	Subrecipient contracts and reports are managed with complete documentation and monitoring.	Supporting documentation was not provided to demonstrate that ongoing monitoring of subrecipient expenditures and activity was occurring. There appeared to be heavy reliance on the Senior Housing Coordinator to monitor and approve all subrecipient expense reports. While this staff member demonstrated strong competence, dependence on a single individual creates potential risks related to continuity and oversight. NOTE: After testing was complete, on April 20, 2026, we were provided with expense reports for our selected subrecipients, however all	The City should conduct a thorough review of subrecipient monitoring requirements from funding agencies and compare to their current practices, with a focus on distributing monitoring responsibilities to mitigate risks associated with reliance on one individual. Implementing robust document retention and management processes is key to ensuring that all subrecipient contracts, invoices, reports, and monitoring documentation are maintained in an accessible, organized, and centralized manner. These steps will strengthen compliance, enhance oversight, and improve audit readiness while supporting operational resilience.	Moderate	Low

NO.	CONTROL OBJECTIVE	CONTROL ISSUE	RECOMMENDATION	OCCURRENCE LIKELIHOOD	IMPACT OF OCCURRENCE
		approvals were dated in 2026, after our testing period.			
2	Council approves grant awards to subrecipients, and payments are tracked and monitored appropriately.	At the time of our review, documentation supporting Council approval of subrecipient awards and related invoicing/payment tracking was incomplete or unavailable for the selected subrecipients. NOTE: After testing was complete, on April 20, 2026, we received documentation that showed council approval of subrecipient awards effective 9/11/2025.	The City should formalize and document the process for Council approval of subrecipient awards via meeting minutes and ensure that invoicing and payment tracking is maintained in a centralized, accessible system. Regular reconciliations and monitoring of payments should be performed to ensure compliance with contract terms and grant requirements.	Moderate	Low
Management Response to Housing/Community Development Block Grant Control Issues and Recommendations					
	The identified controls were in place and operating at the time of the audit. The Senior Housing Coordinator is responsible for the initial review and approval of invoices, while the Finance Division performs the secondary review and final approval. Accordingly, invoices that have completed the full approval process are maintained by the Finance Division rather than by the Housing division/Community Development Department. As a result, the initial audit testing, which was conducted using records maintained at the Senior Housing Coordinator level, did not reflect the complete approval process or the full extent of the established internal controls.				