

City of Cupertino

Cupertino, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2024



City of Cupertino
Single Audit and Independent Auditors' Reports
For the Year Ended June 30, 2024

Table of Contents

	<i><u>Page</u></i>
Independent Auditors' Reports:	
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
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	7
Notes to the Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs	9

This page intentionally left blank.



**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***

Independent Auditors' Report

To the Honorable Mayor and the Members of the City Council
of the City of Cupertino
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 ("*Government Auditing Standards*"), 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, 2024, and the related notes to the financial statements which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 25, 2024.

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 weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

To the Honorable Mayor and the Members of the City Council
of the City of Cupertino
Cupertino, California
Page 2

Report on Compliance and Other Matters

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

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California
November 25, 2024



**REPORT ON COMPLIANCE FOR MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL
OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Cupertino, California's (the "City") 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 the City's major federal programs for the year ended June 30, 2024. The City's major federal program is identified in the summary of the auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City 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, 2024.

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 Auditors' 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 each major federal program. Our audit does not provide a legal determination of 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.

Auditors' 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 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 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 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 Auditors' 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 and significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2024-001 and 2024-002 to be significant deficiencies.

To the Honorable Mayor and the Members of the City Council
of the City of Cupertino
Cupertino, California
Page 3

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 compliance 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 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 of the City, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise City's basic financial statements. We issued our report thereon dated November 25, 2024, which contained unmodified opinions on those financial statements. Our audit was performed 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 GAAS. 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.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California

March 18, 2025, except for the Schedule of Expenditures of Federal Awards, which is as of November 25, 2024

This page intentionally left blank.

City of Cupertino
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2024

Federal Grantor/Pass - Through Grantor/Program Title	Assistance Listing Number	Grant Identification Number	Federal Expenditures	Expenditures to Subrecipients
<u>U.S. Department of Housing and Urban Development</u>				
<i>Direct Program:</i>				
CDBG - Entitlement/Special Purpose Grants Cluster:				
Community Development Block Grants/Entitlement Grants	14.218	B23MC060057	\$ 193,777	\$ 147,564
Community Development Block Grants/Entitlement Grants	14.218	Program Income	7,942	-
Total CDBG – Entitlement/Special Purpose Grants Cluster			201,719	147,564
Total U.S. Department of Housing and Urban Development			201,719	147,564
<u>U.S. Department of Transportation</u>				
<i>Passed through State of California Department of Transportation:</i>				
Highway Planning and Construction	20.205	CML-5318 (033)	1,000,000	-
Highway Planning and Construction	20.205	BPMP-5318(029)	5,822	-
Total Highway Planning and Construction			1,005,822	-
Total U.S. Department of Transportation			1,005,822	-
<u>U.S. Department of Health and Human Services</u>				
<i>Passed through National Association of County and City Health Officials:</i>				
Medical Reserve Corps Small Grant Program	93.008	22-0039	4,129	-
Total U.S. Department of Health and Human Services			4,129	-
Total Expenditures of Federal Awards			\$ 1,211,670	\$ 147,564

City of Cupertino
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2024

Note 1 – Reporting Entity

The financial reporting entity, as defined by the Governmental Accounting Standard Board (“GASB”), consists of the primary government, which is the City of Cupertino, California (the “City”), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Note 2 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the City under programs of the federal government for the year ended June 30, 2024. 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* (the “Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of City, it is not intended to and does not present the financial position of the City.

Note 3 – Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. 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. 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.

Note 4 – Indirect Cost Rate

The City has not elected to use the 10-percent de minimis indirect rate as allowed under the Uniform Guidance.

Note 5 – Subrecipients

During the year ended June 30, 2024, the City provided federal funds to the following subrecipients:

Assistance Listing Number	Program Name / Subrecipient Name	Amount Provided to Subrecipients
14.218	CDBG - Entitlement/Special Purpose Grants Cluster:	
	Rebuilding Together Silicon Valley	\$ 92,536
	Live Oak Adult Day Services	19,054
	West Valley Community Services	35,974
		<u>\$ 147,564</u>

City of Cupertino
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2024

Section I – Summary of Auditors’ Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? 2024-001 and 2024-002

Type of auditors’ report issued on compliance for major programs Unmodified

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

Identification of major programs:

<u>Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>	<u>Expenditures</u>
20.205	Highway Planning and Construction	\$ 1,005,822
	Total Expenditures of All Major Federal Programs	\$ 1,005,822
	Total Expenditures of Federal Awards	\$ 1,211,670
	Percentage of Total Expenditures of Federal Awards	83.01%

Dollar threshold used to distinguish between type A and type B programs \$750,000

Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520? No

City of Cupertino
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statement Audit

No current year financial statement findings were noted.

B. Prior Year Findings – Financial Statement Audit

2023-001 – Internal Control Over Financial Reporting – Prior Year Adjustments, Year-End Closing, and Delay in Issuance of the Single Audit

Condition:

During the year ended June 30, 2023, the City recorded prior period adjustment in the governmental activities in the amount of \$1,562,736 due to correction of recording loans related interest receivable. The City also recorded prior period adjustments in the General Fund and the Housing Development Special Revenue Fund in the amount of \$509,278 and \$4,725,458, respectively, due to correction of recording loans related interest receivable and the restatement of unavailable revenue related to the loans receivable to the fund balance.

The City has experienced significant delays in the preparation of the annual comprehensive financial report and issuance of the Single Audit required under Uniform Guidance. Due to the delay in issuance of the Single Audit report, the Data Collection Form was not submitted timely.

Recommendation:

We recommend the City update its policy to review and reconcile the general ledger. The policy and procedures should also include the year-end closing procedures and the accounts to be reconciled in accordance with Governmental Accounting Standards Board Statements and provide training to staff to properly perform the reconciliation and closing.

In addition, the policy and procedures should include critical due dates and develop a listing of assignment, including department coordinated items, based on available resources to meet those due dates.

Status:

This finding was resolved during the year ended June 30, 2024.

City of Cupertino
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section III – Federal Award Findings

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit

2024-001 – Procurement, Suspension, and Debarment – Internal Control over Procurement and Verification Against the System for Award Management (“SAM”) (Significant Deficiency)

Identification of the Federal Program:

Assistance Listing Number: 20.205
Assistance Listing Title: Highway Planning and Construction
Federal Agency: Department of Transportation
Pass-Through Entity: State of California Department of Transportation
Federal Award Number and Award Year: CML-5318(033)

Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation):

Suspension and Debarment, Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the System for Award Management (SAM) Exclusions maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/> (Note: The OMB guidance at 2 CFR part 180 and agency implementing regulations still refer to the SAM Exclusions as the Excluded Parties List System (EPLS)), (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Condition:

During our audit, we noted that the City did not have documentation on verifying the vendors against the SAM to ensure that they were not suspended or debarred from federally funded purchases.

Cause:

The City does not have a process to require departments to perform suspension or debarment over vendors that the City makes contracts with federally-funded projects.

Effect or Potential Effect:

Without verifying whether vendors are suspended or debarred from working on federally-funded projects, the City could be contracting with vendors that are prohibited from working on federally-funded projects.

Questioned Costs:

None.

Context:

See condition above for context of the finding.

City of Cupertino
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section III – Federal Award Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2024-001 – Procurement, Suspension, and Debarment – Internal Control over Procurement and Verification Against the System for Award Management (“SAM”) (Significant Deficiency) (Continued)

Identification as a Repeat Finding, If Applicable:

Not applicable.

Recommendation:

We recommend that the City establish internal control procedures to monitor compliance requirements to ensure vendors are not suspended or debarred from federally-funded purchases.

View of Responsible Officials:

Management concurs the finding.

City of Cupertino
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section III – Federal Award Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2024-002 – Special Tests and Provisions – Internal Control over Quality Assurance Program (Significant Deficiency)

Identification of the Federal Program:

Assistance Listing Number:	20.205
Assistance Listing Title:	Highway Planning and Construction
Federal Agency:	Department of Transportation
Pass-Through Entity:	State of California Department of Transportation
Federal Award Number and Award Year:	CML-5318(033)

Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation):

In accordance with the City's adopted Quality Assurance Program Manual, Quality Assurance Program (QAP) pertains to a sampling and testing program that will provide assurance that the materials and workmanship incorporated into the construction project are in conformance with the contract specifications. The main elements of a QAP are the Acceptance Testing (AT) and the Independent Assurance Program (IAP). AT refers to the sampling and testing, or inspection, to determine the degree of compliance with contract requirements while IAP refers to the verification that AT is being performed correctly by qualified testers and laboratories. The abovementioned QAP elements should be monitored through these forms/checklists: Materials Certificate (Appendix K), Checklist to Assist Local Agencies Monitor Acceptance Testing Requirements (Appendix E), and Checklist to Assist Local Agencies to Monitor Independent Assurance Requirements (Appendix L).

Condition:

Quality Assurance Tests were performed during the fiscal year for the federal project; however, we found that the corresponding monitoring forms and checklists were not completed in a timely manner in accordance with the adopted QAP Manual. The Appendices K, E, and L checklists were all accomplished after the project completion which deviates from the intended purpose of the QAP.

Cause:

The City did not follow the adopted QAP properly to complete Appendices K, E, and L forms/checklists timely.

Effect or Potential Effect:

Without completing the forms and checklists timely, the City might overlook some of the important matters and testing needed in monitoring the federal project.

Questioned Costs:

None.

Context:

See condition above for context of the finding.

City of Cupertino
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section III – Federal Award Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2024-002 – Special Tests and Provisions – Internal Control over Quality Assurance Program (Significant Deficiency) (Continued)

Identification as a Repeat Finding, If Applicable:

Not applicable.

Recommendation:

We recommend that the City to adhere with the QAP manual on the timely accomplishment of the abovementioned forms and checklists in line with the federal project timeline.

View of Responsible Officials:

Management concurs the finding.

City of Cupertino
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2024

Section III – Federal Award Findings (Continued)

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit

2023-002 – Reporting – Internal Control and Compliance over Reporting (Material Weakness)

Condition:

The City did not have proper segregation of duties in place for the preparation, approval and submission of the ARPA-related reportorial requirements to the U.S. Department of Treasury. Further, the audit team noted that the City did not properly obligate the funds related to revenue replacement category on its annual project and expenditures report resulting to incorrect reporting.

Recommendation:

We recommend that the City strengthen their report submission process and procedures to ensure all required reports are properly reviewed and approved and submitted. Further, we recommend the City to have in depth staff training with regard to the grant compliance requirements in order to avoid misinterpretation of the necessary requirements.

Status:

This finding was resolved during the year ended June 30, 2024.

This page intentionally left blank.