



# City of Palo Alto

## City Council Staff Report

(ID # 12108)

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**Report Type: Consent Calendar**

**Meeting Date: 5/10/2021**

**Summary Title: Approval of FY 2020 Single Audit Report**

**Title: Finance Committee Recommends the City Council Approve the Macias Gini & O'Connell's Single Audit Report for the Year Ended June 30, 2020**

**From: City Manager**

**Lead Department: City Auditor**

### **RECOMMENDATION**

The Finance Committee, Office of the City Auditor, and Staff recommend that the City Council approve the following audit reports for the fiscal year ended June 30, 2020 prepared by Macias Gini & O'Connell ("MGO"). These reports are collectively referred to as the Single Audit.

1. Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements in Accordance With Government Auditing Standards.
2. Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Federal Awards Required by the Uniform Guidance.

### **SUMMARY**

At the January 11, 2021 City Council Meeting, the [City Council approved the following audit reports](#) prepared by MGO:

- a) Report to the City Council (the "Management Letter")
- b) Cable TV Franchise, Independent Auditor's Report and Statements of Franchise Revenues and Expenses for the years ended December 31, 2019 and 2018
- c) Palo Alto Public Improvement Corporation (a component unit of the City of Palo Alto) Annual Financial Report for the year ended June 30, 2020
- d) Regional Water Quality Control Plant, Independent Auditor's Report and Financial Statements for the year ended June 30, 2020
- e) Independent Accountant's Report on Applying Agreed-Upon Procedures related to the Article XIII-B Appropriations (GANN) Limit for the year ended June 30, 2020
- f) The Fiscal Year (FY) 2020 Comprehensive Annual Financial Report (Annual Report) included in [CMR #1171](#) that is available [here](#).

At that time, guidance necessary for the completion of the Single Audit had not yet been released by Federal Office of Management and Budget. The Single Audit report has since been completed, thus the recommended action within this report.

MGO reports the following within the Single Audit Report:

- Unmodified opinions as it pertains to both the Financial Statements and to Federal Awards
- No material weaknesses or significant deficiencies in internal controls over financial reporting or over major programs
- No findings or questioned costs

The Office of the City Auditor and Staff presented this recommendation to the [Finance Committee on April 6, 2021](#), and the motion was unanimously approved after a presentation by MGO.

#### **Stakeholder Engagement**

This report has been prepared by the Administrative Service Department Accounting division and coordinated with the Office of the City Auditor and the Office of Management and Budget.

#### **Environmental Review**

This is not a project for purposes of the California Environmental Quality Act (CEQA).

#### **Attachments:**

- City of Palo Alto - Single Audit Report FY2020
- MGO Presentation to Palo Alto - Single Audit FY2020

**CITY OF PALO ALTO**

Single Audit Reports

Year Ended June 30, 2020



Certified  
Public  
Accountants

**CITY OF PALO ALTO**  
Single Audit Reports  
Year Ended June 30, 2020

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**Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance With *Government Auditing Standards***

Honorable Mayor and the Members  
of the City Council of the City of Palo Alto  
Palo Alto, 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 Palo Alto, California (City), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 30, 2020.

**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 may exist that have not been identified.

**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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Macias Gini E O'Connell LEP". The signature is written in a cursive, flowing style.

Walnut Creek, California  
October 30, 2020



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

Honorable Mayor and the Members  
of the City Council of the City of Palo Alto  
Palo Alto, California

**Report on Compliance for Each Major Federal Program**

We have audited the City of Palo Alto, California's (City) compliance with the types of compliance requirements described 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, 2020. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

***Opinion on Each Major Federal Program***

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 each of its major federal programs for the year ended June 30, 2020.

**Report on Internal Control Over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of

requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated October 30, 2020, 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 City's 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.



Walnut Creek, California  
March 15, 2021



**CITY OF PALO ALTO**  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2020

Grantor/Pass-Through Grantor/Program Title	Grantor Identifying Number	Federal CFDA Number	Expenditures	Subrecipients Expenditures
<b>U.S Department of Housing and Urban Development</b>				
<i>Direct</i>				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	n/a	14.218	\$ 606,062	\$ 516,819
<b>U.S. Department of Justice</b>				
<i>Direct</i>				
Bulletproof Vest Partnership	n/a	16.607	1,828	-
<b>U.S. Department of Transportation</b>				
<i>Direct</i>				
Public Transportation Research, Technical Assistance and Training	CA-2017-020-00	20.514	586,378	-
Airport Improvement Program	3-06-0182-014-2018	20.106	5,481,450	-
<i>Subtotal - Direct Awards</i>			6,067,828	-
<i>Pass-through from State of California Department of Transportation</i>				
Highway Planning and Construction	BRLS-5100(017)	20.205	43,139	-
Highway Planning and Construction	CML-5100(027)	20.205	608,846	-
<i>Pass-through from Santa Clara Valley Transportation Authority</i>				
Highway Planning and Construction	SCL 170021	20.205	207,976	-
<i>Subtotal - Highway Planning and Construction</i>			859,961	-
Total U.S. Department of Transportation			6,927,789	-
<b>National Endowment for the Humanities</b>				
<i>Direct</i>				
Museums for America	MA-10-17-0327-17	45.301	69,405	-
<i>Pass-through from California State Library</i>				
Grants to States	MA-11-15-0104-15	45.310	17,160	-
Total National Endowment for the Humanities			86,565	-
<b>TOTAL FEDERAL FINANCIAL AWARDS</b>			\$ 7,622,244	\$ 516,819

See accompanying notes to the Schedule of Expenditures of Federal Awards

**CITY OF PALO ALTO**  
Notes to the Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2020

**NOTE 1 – REPORTING ENTITY**

The schedule of expenditures of federal awards (the Schedule) includes expenditures of federal awards for the City of Palo Alto, California (City), and its component unit as disclosed in the notes to the basic financial statements.

**NOTE 2 – BASIS OF ACCOUNTING**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of measurement focus applied. All governmental funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of federal awards reported in the Schedule are recognized when incurred and all eligibility requirements have been met. Such expenditures are recognized following the cost principles contained in 2 CFR 200, Subpart E (Cost Principles), wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City did not elect to use the 10% de minimis cost rate as covered in 2 CFR 200.414(F&A) costs.

**NOTE 3 – DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS**

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types of federal award programs when they occur.

**NOTE 4 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS**

Amounts reported in the Schedule agree to or can be reconciled with the amounts reported in the related federal financial reports.

**NOTE 5 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

Federal awards and expenditures agree to or can be reconciled with the amounts reported in the City's basic financial statements.

**CITY OF PALO ALTO**  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2020

**Section I      Summary of Auditor's Results**

*Financial Statements:*

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

*Federal Awards:*

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance with major programs:	Unmodified
Any audit findings required to be reported in accordance with 2 CFR 200.516(a)?	No

Major program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program
20.514	Public Transportation Research, Technical Assistance, and Training

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualifies as a low-risk auditee?	Yes

**Section II      Financial Statement Findings**

None reported.

**Section III      Federal Awards Findings and Questioned Costs**

None reported.

**CITY OF PALO ALTO**  
Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2020

Prior audit findings were not reported.





# FY 2019-20 Single Audit Results

PRESENTED BY

Cynthia Pon, CPA, CGMA

Partner

April 6, 2021



Certified  
Public  
Accountants

The following presentation was prepared as part of our audit of the City of Palo Alto (the "City") for the year ended June 30, 2020, is limited in its overall information, and is intended solely for the information and use by those charged with governance, management and as necessary, those charged with financial reporting oversight role of the City. This communication is not intended and should not be used by any other party, committee or person other than these specified parties.

# Reports Issued

## Deliverable Reports

- Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- 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

# Summary of Audit Results

## Schedule of Expenditures of Federal Awards (SEFA)

- Total FY 2020 SEFA Expenditure: \$7.6 million for 7 federal programs
- 2 Major federal programs totaled to \$6.1 million (80% coverage)
  - CFDA No. 20.106 Airport Improvement Program
  - CFDA No. 20.514 Public Transportation Research, Technical Assistance, and Training



# Summary of Audit Results

## Financial Statements

- Unmodified opinion
- No reported significant deficiencies or material weaknesses over financial reporting
- No noncompliance significant to the financial statements

## Federal Awards

- Unmodified opinion on each major federal program
- No reported significant deficiencies or material weaknesses over compliance
- No reported instances of noncompliance or other matters
- SEFA is fairly stated in relation to the basic financial statements



City of Palo Alto  
FY 2019/20 Single Audit Results

# Questions?

[www.mgocpa.com](http://www.mgocpa.com)

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