



**TOWN OF LOS GATOS**  
**FINANCE COMMISSION REPORT**

MEETING DATE: 05/09/2022

ITEM NO: 3

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DATE: May 5, 2022  
TO: Finance Commission  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Receive FY 2020/21 Federal Single Audit Report

**RECOMMENDATION:**

Staff recommends that the Finance Commission receives the Federal Single Audit Report for the fiscal year ended June 30, 2021 prepared by Badawi and Associates.

**DISCUSSION:**

Based on the Town's understanding of the initial guidance released April 22, 2020 regarding the Coronavirus Aid, Relief, and Economic Security (CARES) Act eligible uses, rent forgiveness support was classified as eligible under the Small Business Assistance category of expenditures. As such, the Town Council opted to assist certain Town lessees by forgiving their rent (a voluntary write-off of rents due to the Town) to support these entities during the height of the pandemic.

In performing the Single Audit for FY 2020/21, the Town's independent auditor Badawi and Associates concluded that the rent forgiveness to be "lost revenue" and thereby a "questioned cost" which under their interpretation of the federal guidelines would not be eligible for federal CARES Act reimbursement funding. Losses in revenues due to the pandemic such as a decline in sales taxes or property tax was not eligible under the federal rules. The questioned cost determination of rent forgiveness is identified as a material weakness in the Single Audit Report that requires corrective action by the Town.

Staff was aware that lost revenue was not eligible for federal funds but did not consider the voluntary rent forgiveness to be "lost revenue" under the initial federal guidelines promulgated at the height of the pandemic. In retrospect, for Single Audit purposes it appears

**PREPARED BY:** Stephen Conway  
Finance Director

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Reviewed by: Town Manager, Town Attorney, and Assistant Town Manager

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DISCUSSION (continued):

that the better solution would have been to have the lessees pay the full rent due to the Town. Upon receipt of the full rent, the Town could then have paid the lessees back in the form of a rental assistance grant which would have accomplished the same objective without raising a deliberation about whether the voluntary forgiveness of rent is an expense to the Town or a lost revenue under the federal guidelines.

If the federal government subsequently determines that this cost were to be disallowed, the Town has significant other qualifying expenditures in categories such as payroll for public safety that could be substituted for the small business rental assistance.

Attachments:

1. FY 2020/21 Single Audit