

**TOWN OF LOS GATOS
CALIFORNIA**

SINGLE AUDIT REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2022



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ATTACHMENT 1

**TOWN OF LOS GATOS
CALIFORNIA
SINGLE AUDIT REPORT
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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

To the Honorable Mayor and Members of the
Town Council of the Town of Los Gatos
Los Gatos, 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 Town of Los Gatos (the “Town”) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated December 6, 2022.

Internal Control over Financial Reporting

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town’s financial statements are free of 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 determination of financial statement amounts. 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.

C & A LLP

Morgan Hill, California
December 6, 2022



INDEPENDENT AUDITORS REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND 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 Members of the
Town Council of the Town of Los Gatos
Los Gatos, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Town of Los Gatos (the Town)'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 each of the Town's major federal programs for the year ended June 30, 2022. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Town 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, 2022.

Basis for Opinion on Each Major federal programs

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 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 Town 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 programs. Our audit does not provide a legal determination of the Town'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 Town's federal programs.



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 Town'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 Town's compliance with the requirements of each major federal programs.

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 Town'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 Town'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 Town'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

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 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

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 Town as of and for the year ended June 30, 2022, and have issued our report thereon dated December 6, 2022, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. 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 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 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 financial statements or to the 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 financial statements as a whole.

C & A LLP

December 6, 2022
Morgan Hill, California

TOWN OF LOS GATOS, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal Catalog Number (CFDA)</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures to Subrecipients</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation				
Pass-through programs from the California Dept of Transportation				
<i>Highway Planning and Construction Cluster</i>				
Highway Planning and Construction	20.205	HSIPL-5067(022)	\$ -	\$ 555,994
Highway Planning and Construction	20.205	CML-5067(022)	-	44,442
<i>Total Highway Planning and Construction Cluster</i>			<u>-</u>	<u>600,436</u>
Total US Department of Transportation			<u>-</u>	<u>600,436</u>
U.S. Department of Treasury				
Pass-through program from the State of California				
Coronavirus State and Local Fiscal Recovery Funds (1)	21.027	N/A	-	3,413,961
Total U.S. Department of Treasury			<u>-</u>	<u>3,413,961</u>
U.S. Department of Justice				
Direct program:				
Bulletproof Vest Partnership Program	16.607	N/A	-	6,060
Total U.S. Department of Justice			<u>-</u>	<u>6,060</u>
Total Federal Programs			<u>\$ -</u>	<u>\$ 4,020,457</u>

(1) Audited as major program

See accompanying Notes to Schedule of Expenditures of Federal Awards.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the Town of Los Gatos (the Town) under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget Title 2 U.S. *Code of Federal Regulations* (CFR) 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 operations of the Town, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town and some amounts in this schedule may differ from amounts presented in the Town's financial statements.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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. Pass-through entity identifying numbers are presented where available. The Town has elected not to use the 10 percent de-minimus indirect cost rate as allowed under Uniform Guidance.

Note 3. Relationship to the Basic Financial Statements

The amounts reported in the accompanying schedule agree, in all material respects, to amounts reported within the Town's financial statements. Federal award revenues are reported principally in the Town's financial statements as intergovernmental revenues.

Note 4. Relationship to Federal Financial Reports

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

Note 5. Pass-Through Entities' Identifying Number

When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the Town has determined that no identifying number is assigned for the program, or the Town was unable to obtain an identifying number from the pass-through entity.

TOWN OF LOS GATOS, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30,2022

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	<u>Unmodified</u>
Internal control over financial reporting:	
Material weaknesses?	___ Yes <u> x </u> No
Significant deficiencies identified not considered to be material weaknesses?	___ Yes <u> x </u> None Reported
Non-compliance material to financial statements noted?	___ Yes <u> x </u> No

Federal Awards

Internal control over major programs:	
Material weaknesses?	___ Yes <u> x </u> No
Significant deficiencies identified not considered to be material weaknesses?	___ Yes <u> x </u> None Reported

Type of auditor's report issued on compliance over major programs	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)	___ Yes <u> x </u> No

Identification of Major Programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program</u>
21.027	Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between type A and type B programs:	<u>\$ 750,000</u>
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Auditee qualified as low risk auditee?	___ Yes <u> x </u> No
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TOWN OF LOS GATOS, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30,2022

Section II - Financial Statement Findings

No findings noted.

Section III - Federal Award Findings and Questioned Costs

No findings noted.

TOWN OF LOS GATOS, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2022

Section II - Financial Statement Findings

No findings noted.

Section III - Federal Award Findings and Questioned Costs

Finding: 2021-001

Condition: On April 21, 2020, the Town Council approved a waiver of rent and utilities for a set of nonprofit lessees. When preparing a listing of grant expenditures for reporting to the State, the Town chose to use their rent and utility waivers as a qualifying expenditure. Per the Coronavirus Relief Fund (Fund) program guidance in the Federal Register dated January 15, 2021, revenue replacement is not a permissible use of Funds under this program.

Status: Implemented.

The Town's previous independent auditor had opined that the Town's efforts to provide economic relief in the form of waivers of rent (rent forgiveness) to a number of non-profits and other entities should be considered as "lost revenue" and therefore disallowable because lost revenue is precluded as an expenditure for the CARES act. Based on the Town's understanding of the CARES act rent forgiveness support was classified as eligible under the Small business assistance category of expenditures. As such, the Town Council opted to assist these groups by forgiving their rent (a voluntary write-off of rents due to the Town) to support these entities during the height of the pandemic. If the Federal Government 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.

In response to the questioned finding on waivers of rent, staff received approval from the State of California Department of Finance to re-allocate the questioned costs amount of \$94,988 from business support (rent waivers) to public safety payroll. The department reviewed the Town's submittal and on June 1, 2022 the Town received the department's approval of the re-allocation as corrected in the State's Corona Virus Fund Reporting worksheet.