



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 06/21/2022

ITEM NO: 4

DATE: June 14, 2022
TO: Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive Fiscal Year 2020/21 Federal Single Audit Report and Corrective Action Plan

RECOMMENDATION:

Staff recommends that the Town Council receive the Federal Single Audit Report and Corrective Action Plan for Fiscal Year (FY) 2020/21.

BACKGROUND:

On May 9, 2022, staff presented the Town's Federal Single Audit for FY 2020/21 Single Audit Report to the Town's Finance Commission. In performing the Single Audit for FY 2020/21, the Town's independent auditor, Badawi and Associates, concluded that the rent forgiveness provided by the Town constituted "lost revenue" and thereby a "questioned cost" which under their interpretation of the federal guidelines would not be eligible for federal Coronavirus Aid, Relief, and Economic Security (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 CARES Act rules.

Based on the Town's understanding of the initial Treasury guidance released April 22, 2020 regarding the 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.

The questioned cost determination of rent forgiveness is identified as significant deficiencies in internal control over compliance that the auditor considered as a material weakness in the Single Audit Report (Attachment 1) and requires corrective action by the Town.

PREPARED BY: Stephen Conway
Finance Director

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

SUBJECT: Receive FY 2020/21 Federal Single Audit Report and Corrective Action Plan

DATE: June 21, 2022

BACKGROUND (continued):

The auditor made this judgment based upon the fact that \$94K of the \$388K submitted for CARES Act reimbursements to the State Department of Finance was for rental assistance subsidies (rent forgiveness) for which the auditor determined was a material amount of the total \$388K claimed under the CARES Act. The Finance Commission discussed the finding and stressed the importance of rectifying the issue and apprising Council of the finding.

DISCUSSION:

Accompanying the Single Audit Report is a required supplemental corrective action plan (Attachment 2) for federal agency review that must be submitted if the audit report had a finding. The affected Federal awarding agency or pass-through entity will review the report and if necessary, will follow up with Town staff on the acceptability of the Town's corrective action plan or any alternative actions it expects staff to implement.

Upon feedback received from the Finance Commission on the possibility of re-submitting the CARES Act claim using an alternative eligible cost to replace the waiver of rents, staff contacted the State Department of Finance. Upon staff's request, the Department of Finance allowed staff to correct, resubmit, and reallocate the questioned costs amount of \$94,988 from business support (rent waivers) to public safety payroll costs. Staff received written approval of the reallocation as corrected in the State's coronavirus reporting worksheet on June 1, 2022.

The attached revised Corrective Action Plan was updated to include the re-submission of replaced public safety costs to be substituted for rent waivers as approved by the State Department of Finance. Staff and its independent auditor believe that the nature of the finding and the revised corrective action plan as proposed have a positive result for the Town and that no further action or adverse outcomes would be required by the Federal agency reviewing this report.

CONCLUSION:

Upon approval by Town Council the Single Audit and Corrective Action Plan will be filed electronically by the auditor with certification by Town staff. The due date for filing is September 30, 2022.

Attachments:

1. FY 2020-21 Single Audit
2. FY 2020-21 Corrective Action Plan