

CITY OF PALO ALTO

Single Audit Reports

For the Year Ended June 30, 2022



Certified
Public
Accountants

CITY OF PALO ALTO
Single Audit Reports
For the Year Ended June 30, 2022

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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 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 (*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 Palo Alto, California (City), as of and for the year ended June 30, 2022, 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 16, 2022.

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.

Report on 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 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 "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Walnut Creek, California
November 16, 2022



**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 Members of the
City Council of the City of Palo Alto
Palo Alto, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Palo Alto, California's (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, 2022. 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.

In our opinion, the City complied, in all material respects, with the 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 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 Audit Standards* issued by the Comptroller General of the United States (*Government Audit Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulation Part 200, Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the 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 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 the 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.

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 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 one 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 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 the City's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the 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 the 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 identify 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 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 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 described 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 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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated November 16, 2022, 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 16, 2023

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CITY OF PALO ALTO
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2022

Grantor/Pass-Through Grantor/Federal Program Title	Grantor Identifying Number	Assistance Listing Number	Federal Expenditures	Subrecipients Expenditures
U.S. Department of Housing and Urban Development				
Direct:				
CDBG - Entitlement Grants Cluster:				
Community Development Block Grants/Entitlement Grants	--	14.218	\$ 293,377	\$ 137,663
COVID-19 - Community Development Block Grants/Entitlement Grants	--	14.218	140,427	121,448
Subtotal - CDBG - Entitlement Grants Cluster			433,804	259,111
Total U.S. Department of Housing and Urban Development			433,804	259,111
U.S. Department of Justice				
Direct:				
Bulletproof Vest Partnership Program	--	16.607	9,588	-
Total U.S. Department of Justice			9,588	-
U.S. Department of Transportation				
Direct:				
Airport Improvement Program	3-06-0182-015-2020	20.106	6,895,124	-
Airport Improvement Program	3-06-0182-018-2021	20.106	152,500	-
Subtotal - Airport Improvement Program			7,047,624	-
Pass-through from State of California Department of Transportation:				
Highway Planning and Construction Cluster:				
Highway Planning and Construction	75LX335-00180000017	20.205	74,164	-
Highway Planning and Construction	BRLS-5100(017)	20.205	107,487	-
Pass-through from Santa Clara Valley Transportation Authority:				
Highway Planning and Construction	SCL 170021	20.205	4,005	-
Subtotal - Highway Planning and Construction Cluster			185,656	-
Total U.S. Department of Transportation			7,233,280	-
U.S. Department of Treasury				
Direct:				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	--	21.027	8,241,043	-
Pass-through from California State Water Resources Control Board:				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	Not Available	21.027	413,642	-
Pass-through from California Department of Community Services and Development:				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	Not Available	21.027	735,969	-
Subtotal - Coronavirus State and Local Fiscal Recovery Funds			9,390,654	-
Total U.S. Department of Treasury			9,390,654	-
National Endowment for the Humanities				
Direct:				
Museums for America	MA-10-17-0327-17	45.301	71,047	-
Museums for America	MA-10-19-0583-19	45.301	145,333	-
Museums for America	MA-24-91-45OMS-21	45.301	14,400	-
Museums for America	MA-40-18-0555-18	45.301	46,391	-
Subtotal - Museums for America			277,171	-
COVID-19 - National Leadership Grants	CAGML-247827-OMLS	45.312	70,887	-
Total National Endowment for the Humanities			348,058	-
U.S. Department of Homeland Security				
Direct:				
Staffing for Adequate Fire and Emergency Response (SAFER)	EMW-2020-FF-01734	97.083	339,192	-
Total U.S. Department of Homeland Security			339,192	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 17,754,576	\$ 259,111

See accompanying notes to the Schedule of Expenditures of Federal Awards

CITY OF PALO ALTO

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2022

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. The information in the 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* (Uniform Guidance).

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. The Schedule is presented using the modified accrual basis of accounting for program expenditures accounted for in governmental funds and the accrual basis of accounting for program expenditures accounted for in proprietary funds. 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 allowed under the Uniform Guidance.

As a result of the COVID-19 pandemic, many new federal programs have been established and funding has been added to existing federal programs. Expenditures funded from the following acts are denoted by the prefix COVID-19 in the federal program title in the Schedule (as applicable):

- Coronavirus Preparedness and Response Supplemental Appropriations Act
- Families First Coronavirus Response Act
- Coronavirus Aid, Relief, and Economic Security Act (CARES Act)
- Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA)
- American Rescue Plan Act (ARP)

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 related expenditures are incurred.

NOTE 4 – RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Expenditures of federal awards are reported in the City's basic financial statements as expenditures in the governmental funds or as expenses/capital assets in the proprietary funds. Federal award expenditures agree 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
For the Year Ended June 30, 2022

Section I Summary of Auditor's Results

Financial Statements:

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with U.S. GAAP:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Type of auditor's report issued on compliance for the major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal programs:

<u>Assistance Listing Numbers</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program
21.027	Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
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Auditee qualified as a low-risk auditee?	Yes
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Section II Financial Statement Findings

None reported.

Section III Federal Awards Findings

None reported.

CITY OF PALO ALTO
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2022

Prior audit findings were not reported.