



Federal Awards Reports in Accordance  
with the Uniform Guidance  
June 30, 2022

City of Santa Cruz

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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 City Council of the  
City of Santa Cruz, California

We have audited, in accordance with 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Santa Cruz, California, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise City of Santa Cruz, California’s basic financial statements and have issued our report thereon dated March 1, 2023.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered City of Santa Cruz, California '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 City of Santa Cruz, California’s internal control. Accordingly, we do not express an opinion on the effectiveness of City of Santa Cruz, California’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 have not been identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Santa Cruz, California '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 cursive script that reads "Eide Sully LLP".

Menlo Park, California  
March 1, 2023



**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**

To the Honorable Mayor and  
Members of the City Council of the  
City of Santa Cruz, California

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

**Opinion on Each Major Federal Program**

We have audited the City of Santa Cruz, California (City)’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 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 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 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 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 City's compliance with the 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 considered 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 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 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 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 the governmental activities, the business-type activities, the aggregate discretely presented component units, 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 March 1, 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 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 basic 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.



Menlo Park, California  
April 4, 2023

City of Santa Cruz  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Housing and Urban Development			
Direct Program			
CDBG - Entitlement Grants Cluster			
COVID-19 - Community Development Block Grants/Entitlement Grants	14.218		\$ 981,876
Community Development Block Grants/Entitlement Grants	14.218		488,717
Total CDBG - Entitlement Grants Cluster			<u>1,470,593</u>
Home Investment Partnerships Program	14.239		8,324
Total Department of Housing and Urban Development			<u>1,478,917</u>
Department of Transportation			
Passed through County of Santa Cruz			
Highway Safety Cluster			
State and Community Highway Safety	20.600	PT19110	78,526
Total Highway Safety Cluster			<u>78,526</u>
Passed through California Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction			
Murray St. Bridge Seismic Retrofits	20.205	STPLX-5025(048)	5,006,385
HSIP Cycle 8 Crossing Improvements	20.205	HSIPL-5025 (068)	1
MB Sanctuary Scenic Trail Segment 8 & 9	20.205	ATPL- 5025(072)	551,569
MB Sanctuary Scenic Trail Segment 7	20.205	HPPLU-5025(061)	222,445
Total Highway Planning and Construction Cluster			<u>5,780,400</u>
Total Department of Transportation			<u>5,858,926</u>
Department of the Treasury			
Direct Program			
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027		8,798,989
Total Department of Treasury			<u>8,798,989</u>
Small Business Administration			
Direct Program			
COVID 19 - Shuttered Venue Operators Grant Program	59.075	73-0700-0-1-376	295,623
Total Small Business Administration			<u>295,623</u>
Environmental Protection Agency			
Passed through the California State Water Resources Control Board			
Drinking Water State Revolving Fund Cluster			
Drinking Water State Revolving Fund	66.468	4410010	17,000,623
Total Drinking Water State Revolving Fund Cluster			<u>17,000,623</u>
Total Environmental Protection Agency			<u>17,000,623</u>
Department of Homeland Security			
Direct Program			
Homeland Security Grant Program	97.067		35,731
Total Homeland Security Grant Program			<u>35,731</u>
Hazard Mitigation Grant			
Brackney Landslide Area	97.039		543,880
Total Hazard Mitigation Grant			<u>543,880</u>
Passed through California Governor's Office of Emergency Services			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)			
CZU Lightning Complex Fires	97.036	FEMA 4558 - DR-CA	53,463
Total Disaster Grants - Public Assistance			<u>53,463</u>
Total Department of Homeland Security			<u>633,074</u>
Total Federal Financial Assistance			<u>\$ 34,066,152</u>



**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the City of Santa Cruz, California (City) under programs of the federal government for the year ended June 30, 2022. Federal awards received directly from federal agencies and received through other governmental agencies are included on the schedule of expenditures of federal awards. The grant period may be different from City's fiscal year, which is from July 1 through June 30. The information 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). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or fund balances of the City.

**Note 2 - Summary of Significant Accounting Policies**

Expenditures reported in the schedule are reported on the modified accrual basis of accounting except for programs reported in the City's enterprise funds, which are presented using the accrual basis of accounting, which is described in Note 1 to the City's basic financial statements. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

**Note 3 - Indirect Cost Rate**

The Organization has not elected to use the 10% de minimis cost rate.

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

**Financial Statements**

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with Unmodified

Internal control over financial reporting:  
 Material weaknesses identified No  
 Significant deficiencies identified not considered to be material weaknesses None Reported

Noncompliance material to financial statements noted? No

**Federal Awards**

Internal control over major program:  
 Material weaknesses identified No  
 Significant deficiencies identified not considered to be material weaknesses None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516: No

**Identification of major programs:**

Name of Federal Program	Federal Financial Assistance Listing/ CFDA Number
CDBG - Entitlement Grants Cluster	14.218
Highway Planning and Construction Cluster	20.205
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027

Dollar threshold used to distinguish between type A and type B programs: \$1,021,985

Auditee qualified as low-risk auditee? Yes

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**Section II – Financial Statement Findings**

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None reported.

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**Section III – Federal Award Findings and Questioned Costs**

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None reported.

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**Section IV – Prior Year Findings**

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None reported.