



Federal Awards Reports in Accordance
with the Uniform Guidance
June 30, 2021

City of Santa Cruz

Independent Auditors’ 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* 1

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Independent Auditors' 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 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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Santa Cruz, California (City), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City of Santa Cruz's basic financial statements, and have issued our report thereon dated February 28, 2022. Our report included an emphasis of matter regarding the adoption of GASB Statement No. 84, *Fiduciary Activities*. Our opinions are not modified with respect to this matter

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 may exist that have not been identified.

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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Menlo Park, California
February 28, 2022



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

We have audited City of Santa Cruz, California's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of City’s major federal programs for the year ended June 30, 2021. 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of City's compliance. of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to City’s federal programs.

Opinion on Each Major Federal Program

In our opinion, City 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, 2021.

Report on Internal Control Over Compliance

Management of City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City's 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, business-type activities, each major fund, and the aggregate remaining fund information of City as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise City's basic financial statements. We issued our report thereon dated May 9, 2022, which contained unmodified opinions on those financial statements. Our report included an emphasis of matter relating to the adoption of GASB Statement No. 84, *Fiduciary Activities*. Our audit was conducted for the purpose of forming opinions 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 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.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Menlo Park, California
May 9, 2022

City of Santa Cruz
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

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			
Community Development Block Grants/Entitlement Grants	14.218		\$ 633,492
Total CDBG - Entitlement Grants Cluster			<u>633,492</u>
Home Investment Partnerships Program	14.239		296,377
Total Department of Housing and Urban Development			<u>929,869</u>
Department of Justice			
Direct Program			
Bullet Proof Vest Partnership Program	16.607	15-0404-0-1-754	14,560
Total Department of Justice			<u>14,560</u>
Department of Transportation			
Passed through County of Santa Cruz			
Highway Safety Cluster			
State and Community Highway Safety	20.600	PT19110	39,653
Total Highway Safety Cluster			<u>39,653</u>
Passed through California Department of Transportation			
Highway Research and Development Program			
Highway Planning and Construction Cluster	20.200	ATPL- 5025(063)	1,658
Highway Planning and Construction			
Murray St. Bridge Seismic Retrofits	20.205	STPLX-5025(048)	122,115
HSIP Cycle 8 Crossing Improvements	20.205	HSIPL-5025 (068)	1,117,863
MB Sanctuary Scenic Trail Segment 8 & 9	20.205	ATPL- 5025(072)	64,783
MB Sanctuary Scenic Trail Segment 7	20.205	HPPLU-5025(061)	3,493,350
Total Highway Planning and Construction Cluster			<u>4,798,111</u>
Total Department of Transportation			<u>4,839,422</u>
Department of the Treasury			
Passed through California State Department of Finance			
COVID 19-Coronavirus Relief Fund	21.019	75956000	795,452
Total Department of Treasury			<u>795,452</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	4410010-002C	14,672,968
Total Drinking Water State Revolving Fund Cluster			<u>14,672,968</u>
Total Environmental Protection Agency			<u>14,672,968</u>
Department of Energy			
Direct Program			
State Energy Program	81.041	DE-EE0006996/01	364,645
Total Department of Energy			<u>364,645</u>
Department of Homeland Security			
Passed through California Governor's Office of Emergency Services			
Disaster Grants - Public Assistance			
West Cliff Drive	97.036	DR 4308 PW 879	13,166
CZU Lightning Complex Fires	97.036	FEMA 4558 - DR-CA	539,900
Total Disaster Grants - Public Assistance			<u>553,066</u>
Total Department of Homeland Security			<u>553,066</u>
Total Federal Financial Assistance			<u>\$ 22,169,982</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, 2021. 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
COVID 19-Coronavirus Relief Fund	21.019
Drinking Water State Revolving Fund	66.468

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.

None reported.