

**CITY OF SOUTH SAN FRANCISCO**  
**SINGLE AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2022**

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**CITY OF SOUTH SAN FRANCISCO**

**SINGLE AUDIT REPORT  
For the Year Ended June 30, 2022**

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**CITY OF SOUTH SAN FRANCISCO**

**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 GAAP Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?          Yes   X   No
- Significant deficiency(ies) identified?   X   Yes          None Reported

Noncompliance material to financial statements noted?          Yes   X   No

**Federal Awards**

Internal control over major federal programs:

- Material weakness(es) identified?   X   Yes          No
- Significant deficiency(ies) identified?          Yes   X   None Reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?   X   Yes          No

Identification of major program(s):

<b>Assistance Listing Number(s)</b>	<b>Name of Federal Program or Cluster</b>
<u>14.218</u>	<u>Community Development Block Grants/Entitlement Grants COVID-19 - Community Development Block Grants/Entitlement Grants-CV</u>
<u>21.027</u>	<u>COVID-19 – Coronavirus State and Local Fiscal Recovery Fund</u>

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

Auditee qualified as low-risk auditee?          Yes   X   No

## SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did disclose a significant deficiency, but no material weaknesses or instances of noncompliance material to the basic financial statements. In addition to Finding SA2022-001 below, we have also issued a separate Memorandum on Internal Control dated December 27, 2022, which is an integral part of our audits and should be read in conjunction with this report.

**Finding Reference Number:** SA2022-001 - Schedule of Expenditures of Federal Awards (SEFA) Preparation

**Assistance Listing Number:** 14.218, 14.239, 20.205

**Assistance Listing Title:** Community Development Block Grant/Entitlement Grants (CDBG)  
COVID-19 - Community Development Block Grants/Entitlement Grants-CV  
Home Investment Partnerships Program (HOME)  
Highway Planning and Construction (Federal-Aid Highway Program)

**Name of Federal Agency:** Department of Housing and Urban Development  
Department of Transportation

**Federal Award Identification Number:** B-21-MC-06-0042  
COVID-19 – B-20-MW-06-0042  
CDBG Daly City Pass Through # Not Available  
HOME Pass Through # Not Available  
BPMP-5177 (039), HSIPL-5177 (043)

**Name of Pass-through Entity:** City of Daly City, County of San Mateo, State of California Department of Transportation

**Criteria:** In accordance with Uniform Guidance Section 200.358, Auditee Responsibilities, and Section 200.510(b), Schedule of Expenditures of Federal Awards, the City should report all Federal awards expended each fiscal year for each individual Federal program and for Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included in the Schedule of Expenditures of Federal Awards (SEFA).

**Condition:** During our testing of the fiscal year 2022 SEFA provided for audit we noted the following:

1. Federal expenditures for the CDBG Program (AL #14.218) were overstated by \$14,842 due to the City including HOME Program (AL #14.239) expenditures under the CDBG Program, when those expenditures were related to a grant that had been passed through from the County of San Mateo. In addition, the City did not separately report \$22,000 of program expenditures received as a subrecipient.
2. The SEFA did not include any expenditures for two Highway Planning and Construction Program (AL#20.205) projects, although the City had received reimbursement for costs totaling \$262,977 during fiscal year 2022. After we inquired about revenues related to the program received in fiscal year 2022, City staff initially indicated that the SEFA should be increased by \$380,674, but it was later determined that amount included non-federal expenditures and only \$301,488 should be added to the SEFA.
3. Various pass-through grants did not include the grant or pass-through identifying number.

**Effect:** Excluding annual program expenditures from the SEFA or incorrect reporting not only misstates the SEFA, it results in noncompliance with the requirements of individual grant agreements and Uniform Guidance Section 200.358, Auditee Responsibilities, and Section 200.510(b), Schedule of Expenditures of Federal Awards. As a result, future federal funding could be adversely affected.

## SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

**Finding Reference Number:** SA2022-001 - Schedule of Expenditures of Federal Awards (SEFA) Preparation (Continued)

**Cause:** The City’s grant application, monitoring and reporting system is decentralized by department. Once the grant amounts reported by the different departments are reconciled to the accounting records maintained by the Finance Department, adjustments are needed to report the correct amounts.

**Recommendation:** The City must develop procedures and policies to centralize the reporting of grant activity to ensure that all data is readily available when year-end grant activity reporting is necessary. These procedures should facilitate the preparation of the SEFA so that annual expenditures for all grant programs are accurately included on the SEFA. In addition, City staff, including those in departments other than Finance that manage grants, must familiarize themselves with the guidelines for determining federal awards expended that are contained in the Uniform Guidance to ensure that only eligible federal expenditures are reported in the SEFA.

**View of Responsible Officials and Planned Corrective Actions:** Please see Corrective Action Plan separately prepared by the City.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit disclosed the following findings and questioned costs required to be reported in accordance with Uniform Guidance.

**Finding Reference Number:** SA2022-002 - Federal Funding Accountability and Transparency Act (FFATA) Reporting

<b>Assistance Listing Number:</b>	14.218
<b>Assistance Listing Title:</b>	Community Development Block Grant – Entitlement Grant COVID-19 - Community Development Block Grants/ Entitlement Grants-CV
<b>Name of Federal Agency:</b>	Department of Housing and Urban Development
<b>Federal Award Identification Number:</b>	B-21-MC-06-0042 COVID-19 – B-20-MW-06-0042 CDBG Daly City Pass Through # Not Available
<b>Name of Pass-through Entity:</b>	City of Daly City

**Criteria:** Under the requirements of the Federal Funding Accountability and Transparency Act (FFATA) (Pub. L. No. 109-282), as amended by Section 6202 of Public Law 110-252 that are codified in 2 CFR Part 170, direct recipients of grants are required to report first-tier subawards of \$30,000 or more to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). Subawards that are entered into the FSRS System should be maintained so that any amendments to the subawards are also reflected in the system.

**Condition:** We selected two of the City’s subawards for testing of the reporting on the FSRS. The two subawards tested were both more than \$30,000. City staff was not able to provide documentation that the subawards were reported in the FSRS.

**Cause:** We understand that program staff were not familiar with the FFATA reporting requirements.

**Effect:** The City is not in compliance with the FFATA reporting requirements.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Finding Reference Number: SA2022-002 - Federal Funding Accountability and Transparency Act (FFATA) Reporting (Continued)**

**Recommendation:** The City should review all first-tier subaward agreements of \$30,000 or more to ensure that FFATA reporting is completed. In addition, the City should develop procedures to ensure that FFATA reporting is accurate at all times and reflects any contract amendments and final subaward funding amounts.

**View of Responsible Officials and Planned Corrective Actions:** Please see Corrective Action Plan separately prepared by the City.

**Finding Reference Number: SA2022-003 - Monitoring of CDBG Program Activities For Compliance with Program Rules and Regulations**

**Assistance Listing Number:** 14.218  
**Assistance Listing Title:** Community Development Block Grant – Entitlement Grant  
COVID-19 - Community Development Block Grants/  
Entitlement Grants-CV  
**Name of Federal Agency:** Department of Housing and Urban Development  
**Federal Award Identification Number:** B-21-MC-06-0042  
COVID-19 – B-20-MW-06-0042  
CDBG Daly City Pass Through # Not Available  
**Name of Pass-through Entity:** City of Daly City

**Criteria:** 24 CFR part 570 details the various rules and regulations of the Community Development Block Grant (CDBG) Program. These regulations include specific program requirements for timing of activities, eligible and prohibited activities, project and subrecipient monitoring requirements, as well as other provisions. If the City does not adhere to the requirements of 24 CFR part 570 both before disbursement for eligible activities and on an ongoing basis to ensure continued compliance with the income eligibility requirements of the program, costs incurred under the program may be deemed ineligible and need to be returned to the grantor.

**Condition:** The City underwent a monitoring review by the grantor in January 2023 related to the fiscal year 2019 CDBG Program, the results of which were issued in March 2023. The monitoring review results found that the City staff had not utilized the program and financial policies and procedures and resulted in three overall management and financial management findings along with the several sub-findings as follows:

- Finding Number 2023-01: CDBG Overall Management System
  - 2023-01-A – Lack of eligibility determination of activity and national objective for three activities - no determination of its CDBG eligible activity and national objective with the actual evaluation records.
  - 2023-01-B – Recordkeeping - no actual evaluation records to support the City’s CDBG funded eligible activity determination and selections.
  - 2023-01-C – Reporting - the City reported the inconsistent information to HUD in the Integrated Disbursement and Information System (IDIS) and its completed Consolidated Annual Performance and Evaluation Report (CAPER) for the activity’s accomplishments. In addition, the last three program years’ CAPERs were not submitted accurately and HUD had to request several corrections.



### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

#### **Finding Reference Number: SA2022-003 - Monitoring of CDBG Program Activities For Compliance with Program Rules and Regulations (Continued)**

- Finding Number 2023-02: Financial Management System – The City provided HUD with the “Project Accounting Reporting Claims for Grant Reimbursement” and “Purchasing Procedures” as its financial management policies and procedures, but the first document was not used and the Purchasing Procedures policies were not consistent with the CDBG Program Procedures Manual.
  - 2023-02-A - No Grant-based Accounting System Used to Manage the CDBG grant.
  - 2023-02-B - City’s Financial Management System/Internal Control - The City did not maintain sufficient records to demonstrate compliance with CDBG requirements.
  - 2023-02-C - Public Service and Planning and Administration Caps – the City missed the Program Year 2019 public services (PS) Cap in the IDIS. The City requested a waiver, but the City must take action to correct the reporting in the IDIS system.
  - 2023-02-D - No Debarment and Suspension Verification - The City did not ensure that the CDBG funded activities were not made to any subawards, contracts, or any party excluded, disqualified, or otherwise ineligible (e.g., suspension, debarment, or limited denial of participation).
  
- Finding Number 2023-03: Environmental Review and Record - A review of three selected CDBG-funded activity’s environmental review and records (ERRs) found that City conducted the environmental review after these activities commenced and were completed.

In addition, during our testing of project expenditures, we noted that the Environmental Review for Activity/Project that is Categorically Excluded Subject to Section 58.5 form for the Downtown Breezeway Improvements Project was signed on April 7, 2022. However, that date was subsequent to two payments to the contractor that we tested dated March 21, 2022 and April 8, 2022 that were for work performed in February and March, respectively.

**Cause:** HUD determined the City staff lacked experience and knowledge of the CDBG program/project requirements and did not maintain the required documents. Although the City had its CDBG Procedures Manual since 2018 and is in the process of updating it with CDBG and CDBG-CV programs, the contents were not organized or utilized as an active manual by its staff.

In addition, HUD found that City did not have CDBG-specific financial management policies and procedures and managed the CDBG funds with one chart of accounts without its grant-based accounting requirement. The City did not have an internal control system to enforce meeting the CDBG requirements. When the activities were carried out, the Parks and Recreation Department and the Finance staff made the reimbursements from IDIS without review of the CDBG eligible costs.

For the environmental review finding, City staff could not locate the environmental review records to demonstrate compliance with the requirements.

**Effect:** The City is not in full compliance with the program/project rules and regulatory requirements and according to HUD may incur a sanction, including repayment of ineligible costs.

**Recommendation:** The City must develop policies and procedures to ensure that all grant program activities are in compliance with the provisions of 24 CFR part 570 and 24 CFR Part 92 and ensure that all the findings are resolved with the grantor in a timely manner.

**View of Responsible Officials and Planned Corrective Actions:** Please see Corrective Action Plan separately prepared by the City.

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

**Finding Reference Number:** SA2022-004 - **Financial Reporting**

**Assistance Listing Number:** 14.218  
**Assistance Listing Title:** Community Development Block Grant – Entitlement Grant  
COVID-19 - Community Development Block Grants/  
Entitlement Grants-CV  
**Name of Federal Agency:** Department of Housing and Urban Development  
**Federal Award Identification Number:** B-21-MC-06-0042  
COVID-19 – B-20-MW-06-0042  
CDBG Daly City Pass Through # Not Available  
**Name of Pass-through Entity:** City of Daly City

**Criteria:** Grantees may include reports generated by Integrated Disbursement and Information System (IDIS) as part of their annual performance and evaluation report that must be submitted for the CDBG Entitlement program 90 days after the end of a grantee’s program year. The reports to be included in the annual performance and evaluation report include the PR26 – CDBG Financial Summary Report and the PR26 – CDBG-CV Financial Summary Report.

In addition, the City files a quarterly SF-425 Federal Financial Report (IDIS PR29 Cash on Hand Quarterly Report) that includes the quarterly IDIS program drawdowns and disbursements.

Finally, section 15011 of the CARES Act requires that recipients of \$150,000 or more of CARES Act funding (CDBG-CV) submit, not later than 10 days after the end of each calendar quarter, a report containing: information regarding the amount of funds received; the amount of funds obligated or expended for each project or activity; a detailed list of all such projects or activities, including a description of the project or activity; and detailed information on any subcontracts or subgrants awarded by the recipient.

All of the above reports should include accurate information and reconcile to the amounts reported on the SEFA.

**Condition:** We obtained the City’s PR26 – CDBG Financial Summary Report and the PR26 – CDBG-CV Financial Summary Report for program year 2021 (fiscal year ended June 30, 2022), which reported program expenditures of \$628,872 and \$549,498, respectively. We requested a reconciliation of the amounts reported on the PR26’s to the program expenditures reported on the SEFA of \$707,133 and \$106,354, respectively, but City staff could not reconcile the amounts reported.

For the quarterly SF-425 Federal Financial Report (IDIS PR29 Cash on Hand Quarterly Report) for both the CDBG and CDBG-CV programs, we were also unable to reconcile the activity in the reports to the activity reported in the SEFA

As for the section 15011 reporting, City staff was not able to confirm whether the quarterly reports had been filed.

**Cause:** We understand that City staff and consultants hired to assist City staff with the CDBG program have been working to reconcile the financial reports to the general ledger activity, but it has not been completed. We also understand that City staff was not aware of the section 15011 reporting requirement for the CDBG-CV program.

**Effect:** The City is not in compliance with the financial reporting requirements of the CDBG Program.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)**

**Finding Reference Number: SA2022-004 - Financial Reporting (Continued)**

**Recommendation:** The City should develop procedures to ensure that financial reports filed in the IDIS system reconcile with general ledger activity and amounts reported on the SEFA. The City should also work with the grantor to determine if the delinquent section 15011 reports need to be filed, or if the reporting can be prepared prospectively.

**View of Responsible Officials and Planned Corrective Actions:** Please see Corrective Action Plan separately prepared by the City.

**Finding Reference Number: SA2022-005 - Cash Management – Draw Down of Community Development Block Grant Funds in Advance of Expenditures**

**Assistance Listing Number:** 14.218  
**Assistance Listing Title:** Community Development Block Grant – Entitlement Grant COVID-19 - Community Development Block Grants/ Entitlement Grants-CV  
**Name of Federal Agency:** Department of Housing and Urban Development  
**Federal Award Identification Number:** B-21-MC-06-0042  
COVID-19 – B-20-MW-06-0042  
CDBG Daly City Pass Through # Not Available  
**Name of Pass-through Entity:** City of Daly City

**Criteria:** Under 2 CFR 200.305, a CDBG grantee is prohibited from drawing funds down from its line of credit in advance of cash need, and must minimize the time elapsing between the transfer of funds from its line of credit, and the disbursement of the funds. Advance payment must be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the grantee or subrecipient carrying out an eligible activity.

**Condition:** We selected eight non-payroll disbursements related to projects and subgrants for testing and noted one disbursement in April 2022 in the amount of \$142,431 had been charged to the CDBG program in the amount of \$149,927. The difference of \$7,496 was the retention payable to the vendor, which was not paid in cash until after June 30, 2022. However, the City included the retention payable in the grant drawdown filed and received in April 2022.

**Cause:** We understand that the retention was included in the grant drawdown due to staff oversight.

**Questioned Costs:** We question costs in the amount of \$7,496.

**Effect:** Drawing down funds in advance does not minimize the time elapsing between receipt of funds and expenditures and is not in compliance with the cash management provisions of 2 CFR 200.305 and the CDBG program.

**Recommendation:** The City should not draw down funds until expenditures have been paid in cash and in the event, drawdowns occur prior to disbursement, ensure that the time elapsing between the draw down and the expenditure is minimized. The City should determine whether the interest earned on the grant funds advanced need to be returned to the grantor.

**View of Responsible Officials and Planned Corrective Actions:** Please see Corrective Action Plan separately prepared by the City.

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

**Finding Reference Number:** SA2022-006 - Subrecipient Monitoring

**Assistance Listing Number:** 21.027  
**Assistance Listing Title:** COVID-19 – Coronavirus State and Local Fiscal Recovery Funds  
**Name of Federal Agency:** Department of the Treasury  
**Federal Award Identification Number:** EES4XJFTXC28

**Criteria:** 2 CFR sections 200.332(d) through (f) require that a pass-through entity identify the award and applicable requirements to each subrecipient, as well as evaluate each subrecipient’s risk of noncompliance for purposes of determining the appropriate subrecipient monitoring related to the subaward, and monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, complies with the terms and conditions of the subaward, and achieves performance goals.

As part of those requirements, Section 200.332(f) requires that the City as a pass through entity “Verify that every subrecipient is audited as required by Subpart F of this part when it is expected that the subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded the threshold set forth in § 200.501.”

In addition, section VI, Transfer, of the Interim Final Rule and section D, Transfer, of the Final Rule for the Coronavirus State and Local Fiscal Recovery Funds indicates that the recipient remains responsible for monitoring and overseeing the subrecipient’s use of Fiscal Recovery Funds and other activities related to the award to ensure that the subrecipient complies with the statutory and regulatory requirements and the terms and conditions of the award. Recipients also remain responsible for reporting to Treasury on their subrecipients’ use of payments from the Fiscal Recovery Funds for the duration of the award.

**Condition:** The City passed through grant funding of \$1,000,000 to a nonprofit during fiscal year 2022 and although the City did perform monitoring procedures during the fiscal year, those procedures did not include seeing that the entity underwent a Single Audit. Since the City alone provided the nonprofit funding in excess of the \$750,000 threshold, the City should have expected that a Single Audit was completed.

**Cause:** We understand that City staff was not aware of the requirement to review the entity’s Single Audit.

**Effect:** The City is not in compliance with the subrecipient monitoring requirements of 2 CFR section 200.332(f) or with section VI, Transfer, of the Interim Final Rule and section D, Transfer, of the Final Rule for the Coronavirus State and Local Fiscal Recovery Funds.

**Recommendation:** The City should develop procedures to determine if subrecipients are subject to Single Audit each fiscal year, regardless of the level of funding provided by the City, and review the applicable Single Audit reports for the audit results.

**View of Responsible Officials and Planned Corrective Actions:** Please see Corrective Action Plan separately prepared by the City.

**CITY OF SOUTH SAN FRANCISCO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Fiscal Year Ended June 30, 2022

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Identifying Number	Pass-Through To Subrecipients	Federal Expenditures
<b>Department of Housing and Urban Development</b>				
<b>Direct Program:</b>				
Community Development Block Grants/Entitlement Grants	14.218		\$ 205,078	\$ 707,133
COVID-19 - Community Development Block Grants/Entitlement Grants-CV	14.218		38,324	106,354
<b>Pass-Through Program From:</b>				
City of Daly City				
Community Development Block Grants/Entitlement Grants	14.218	Not Available		22,000
<b>Subtotal Community Development Block Grant</b>			<u>243,402</u>	<u>835,487</u>
<b>Pass-Through Program From:</b>				
County of San Mateo				
Home Investment Partnerships Program	14.239	Not Available		14,842
<b>Total Department of Housing and Urban Development</b>			<u>243,402</u>	<u>850,329</u>
<b>Department of Agriculture Pass-Through Program From:</b>				
California Department of Education				
Child and Adult Care Food Program	10.558	4129261K		31,540
<b>Department of Commerce Direct Program:</b>				
Economic Adjustment Assistance	11.307		88,886	88,886
<b>Department of Justice Direct Program:</b>				
Equitable Sharing Program - Asset Forfeiture	16.922			836,048
<b>Department of Transportation Pass-Through Programs From:</b>				
California State Department of Transportation				
Highway Planning and Construction				
Preventative Maintenance on 9 Bridges	20.205	BPMP-5177 (039)		115,089
Grand Blvd Project Phase 3	20.205	CML-5177 (040)		127,263
Commercial and Spruce Signalized Intersection	20.205	HSIPL-5177 (041)		205,586
Pedestrian Improvements, 3 Intersections	20.205	HSIPL-5177 (043)		186,399
<b>Subtotal Highway Planning and Construction</b>				<u>634,337</u>
California Office of Traffic Safety				
State and Community Highway Safety Grants				
FY 2020/21 OTS STEP Grant	20.600	PT22086		49,125
FY 2021/22 OTS STEP Grant	20.600	PT22086		33,292
<b>Subtotal State and Community Highway Safety Grants</b>				<u>82,417</u>
<b>Total Department of Transportation</b>				<u>716,754</u>
<b>Department of the Treasury Direct Programs:</b>				
Volunteer Income Tax Assistance (VITA) Matching Grant Program	21.009			8,800
Equitable Sharing Program - Asset Forfeiture	21.016			40,887
COVID-19 - Coronavirus State and Local Fiscal Recovery Fund	21.027		1,000,000	3,755,648
<b>Total Department of Treasury</b>			<u>1,000,000</u>	<u>3,805,335</u>
<b>Institute of Museum and Library Services Pass-Through Program From:</b>				
California State Library Foundation				
Grants to States	45.310			
LSTA - Glowforge 3D Laser Cutter		40.9307		4,732
LSTA - Community Connections		40.9252		60,000
<b>Total Institute of Museum and Library Services</b>				<u>64,732</u>
<b>Department of Health and Human Services Pass-Through Program From:</b>				
County of San Mateo				
Special Programs for the Aging - Title III, Part B, Grants for				
Supportive Services and Senior Centers				
Adult Day Care	93.044	57000-FY22- R078255J		30,007
Transportation	93.044	57000-FY22- R078255J		10,444
<b>Total Department of Health and Human Services</b>				<u>40,451</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,332,288</u>	<u>\$ 6,434,075</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

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## **CITY OF SOUTH SAN FRANCISCO**

### **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2022**

#### **NOTE 1 – REPORTING ENTITY**

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of South San Francisco, California, and its component units as disclosed in the notes to the Basic Financial Statements, except for federal awards of the South San Francisco Conference Center Authority (Authority). Federal awards expended by this entity, if any, are excluded from the Schedule and are subject to a separate Single Audit performed by other auditors.

#### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. The proprietary and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

#### **NOTE 3 – INDIRECT COST ELECTION**

The City has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

#### **NOTE 4 – PRIOR YEAR ADJUSTMENTS**

The current year Schedule of Expenditures of Federal Awards includes expenditures from the prior fiscal year for the Department of Transportation – Highway Planning and Construction Program (AL#20.205) in the amount of \$10,613.

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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 Members of the City Council  
City of South San Francisco, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of South San Francisco 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 December 27, 2022. Our report includes a reference to other auditors who audited the financial statements of the South San Francisco Conference Center Authority, as described in our report on the City’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. Our report also included an emphasis of a matter paragraph disclosing the implementation of new accounting principles.

***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 City’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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item SA2022-001, that we consider to be a significant deficiency.

### ***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*.

We have also issued a separate Memorandum on Internal Control dated December 27, 2022, which is an integral part of our audit and should be read in conjunction with this report.

### ***City's Response to Findings***

*Government Auditing Standards* require the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs.

The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

### ***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 result 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.



Pleasant Hill, California

December 27, 2022, except for finding SA2022-001, as to which the date is March 31, 2023

**INDEPENDENT AUDITOR'S REPORT  
ON COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE;  
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
REQUIRED BY THE UNIFORM GUIDANCE**

To the Honorable Members of the City Council  
City of South San Francisco, California

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

***Opinion on Each Major Federal Program***

We have audited the City of South San Francisco'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.

The City of South San Francisco's basic financial statements include the operations of the South San Francisco Conference Center Authority, which received no federal awards during the year ended June 30, 2022. Our audit, described below, did not include the operations of the Authority, because the Authority engaged other auditors to perform an audit of compliance.

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.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items SA2022-002, SA2022-003, SA2022-004, SA2022-005 and SA2022-006. Our opinion on each major federal program is not modified with respect to these matters.

*Government Auditing Standards* require the auditor to perform limited procedures on the City's response to the noncompliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

*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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items SA2022-002, SA2022-003, SA2022-004 and SA2022-005 to collectively be material weaknesses.

*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 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.

*Government Auditing Standards* require the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our audit described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 discretely presented component unit, each major fund, and the aggregate remaining funds 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 December 27, 2022, which contained an unmodified opinion on those financial statements. Our report includes a reference to other auditors who audited the discretely presented component unit financial statements of the South San Francisco Conference Center Authority, as of and for the year ended June 30, 2022, as described in our report on the City's financial statements. Our report, in so far as it relates to the results of the other auditors, is based solely on the report of the other auditors. 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.



Pleasant Hill, California  
March 31, 2023