

City of San Mateo

San Mateo, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2023



City of San Mateo

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**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***

Independent Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of San Mateo
San Mateo, 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 San Mateo (the "City"), as of and for the year ended June 30, 2023, and the related notes to the basic financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 8, 2024.

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 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 2023-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic 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*.

The City's Response to Findings

Government Auditing Standards requires 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 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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Walnut Creek, California
March 8, 2024



**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM,
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE
UNIFORM GUIDANCE, AND ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Independent Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of San Mateo
San Mateo, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of San Mateo, California's (the "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, 2023. 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 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, 2023.

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; 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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' 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.

Auditors' 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 generally accepted auditing standards, *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 auditing standards generally accepted in the United States of America, *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 Auditors' 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.

To the Honorable Mayor and Members of City Council
of the City of San Mateo
San Mateo, California
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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.

Schedule of Expenditures of Federal Awards

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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 8, 2024, which contained unmodified opinions on those financial statements. Our audit was performed 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 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.

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Walnut Creek, California
March 8, 2024

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City of San Mateo
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

| Federal Grantor/Pass - Through | Assistance Listing | Grant Identification | Federal | Amount Provided to |
|---|-----------------------|-------------------------------------|---------------------|-----------------------|
| Grantor/Program Title | Number | Number | Expenditures | Subrecipients |
| <u>U.S. Department of Housing and Urban Development</u> | | | | |
| CDBG - Entitlement Grants Cluster: | | | | |
| <i>Direct Programs:</i> | | | | |
| Community Development Block Grant | 14.218 | B-22-MC-06-0018 | \$ 667,968 | \$ 195,068 |
| COVID-19 - Community Development Block Grant | 14.218 | B-20-MW-06-0018 | 244,692 | 244,692 |
| Total CDBG - Entitlement Grants Cluster | | | 912,660 | 439,760 |
| Total U.S. Housing and Urban Development | | | 912,660 | 439,760 |
| <u>U.S. Department of Justice</u> | | | | |
| <i>Direct Programs:</i> | | | | |
| Edward Byrne Memorial Justice Assistance Grant (JAG) Program | 16.738 | 15PBJA22-GG-02593-JAGX | 21,088 | - |
| Bullet Proof Vest Partnership (BPVP) | 16.607 | 2021 | 992 | - |
| Bullet Proof Vest Partnership (BPVP) | 16.607 | 2022 | 1,830 | - |
| Equitable Sharing Program | 16.922 | N/A | 31,243 | - |
| Total U.S. Department of Justice | | | 55,153 | - |
| <u>U.S. Department of Transportation</u> | | | | |
| Highway Planning and Construction Program | | | | |
| <i>Passed through the Association of Governments of San Mateo County:</i> | | | | |
| One Bay Area 2 Grant - Surface Transportation Program | 20.205 | CML-5102(051) | 1,425,218 | - |
| <i>Passed through the California Department of Transportation:</i> | | | | |
| Highway Bridge Replacement & Rehabilitation Program Grant | 20.205 | BRLS-5102(049) | 36,239 | - |
| Total Highway Planning and Construction Program | | | 1,461,457 | - |
| Highway Railroad Grade Crossing Safety Program | 20.301 | STPLR-7500(280)/ STPLR-7500(281) | 96,217 | - |
| Highway Railroad Grade Crossing Safety Program | 20.301 | STPLR-7500(280)/ STPLR-7500(281) | 118,640 | - |
| Total Highway Railroad Grade Crossing Safety Program | | | 214,857 | - |
| Highway Safety Cluster: | | | | |
| <i>Passed through California Office of Traffic Safety:</i> | | | | |
| Selective Traffic Enforcement Program | 20.600 | PT23061 | 13,285 | - |
| Total Highway Safety Cluster | | | 13,285 | - |
| Selective Traffic Enforcement Program | 20.608 | PT23061 | 48,099 | - |
| Total U.S. Department of Transportation | | | 1,737,698 | - |
| <u>U.S. Department of Treasury</u> | | | | |
| <i>Passed through the San Mateo County:</i> | | | | |
| Coronavirus State and Local Fiscal Recovery Fund | 21.027 | SFLRP0201 | 114,660 | - |
| Total U.S. Department of Treasury | | | 114,660 | - |
| <u>National Endowment for the Humanities</u> | | | | |
| <i>Passed through the California State Library:</i> | | | | |
| Grants to States | 45.310 | 40-9388 | 10,000 | - |
| Total National Endowment for the Humanities | | | 10,000 | - |
| <u>U.S. Department of Health and Human Services</u> | | | | |
| Aging Cluster: | | | | |
| <i>Passed through the San Mateo County Aging and Adult Services:</i> | | | | |
| Title III - C1 Congregate Meals | 93.045 | 57000-FY23-R0789841 | 27,307 | - |
| Total Aging Cluster | | | 27,307 | - |
| Total U.S. Department of Health and Human Services | | | 27,307 | - |
| Total Expenditures of Federal Awards | | | \$ 2,857,478 | \$ 439,760 |

See accompanying Notes to the Schedule of Expenditures of Federal Awards.

City of San Mateo
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Note 1 – Reporting Entity

The City of San Mateo (the “City”) was incorporated on September 4, 1894, under the laws of the State of California and enjoys all the rights and privileges applicable to a Charter City.

The City operates under the Council-Manager form of government. The financial reporting entity consists of the City, the primary government, and its component unit. The component unit discussed below is included in the reporting entity because of their operational or financial relationships with the City.

- San Mateo Joint Power Public Financing Authority

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In addition, component units can be other organizations for which the primary government’s exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

Separate financial statements for the San Mateo Joint Power Financing Authority are not available.

Note 2 – Basis of Accounting

Funds received under the various grant programs have been recorded within the general fund and special revenue funds of the City. The City utilizes the modified accrual method of accounting for the general fund and special revenue funds. The accompanying Schedule of Expenditures of Federal Awards (“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). Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in, the preparation of the City’s basic financial statements.

Note 3 – Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies as well as federal financial assistance passed through the State of California, San Mateo County, and the Association of Governments of San Mateo is included in the Schedule. The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position, change in fund balance, or results of operations of the City.

Note 4 – Indirect Cost Rate

The City has not elected to use the 10-percent de minimis indirect rate as allowed under the Uniform Guidance.

City of San Mateo
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

Section I – Summary of Auditors’ Results

Financial Statements

Type of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? 2023-001

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

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

Type of auditors’ report issued on compliance for major programs Unmodified

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

Identification of major programs:

| Assistance Listing Number | Name of Federal Program or Cluster | Federal Expenditures |
|------------------------------|--|-------------------------|
| 14.218 | CDBG - Entitlement Grants Cluster | \$ 912,660 |
| | Total Expenditures of All Major Federal Programs | \$ 912,660 |
| | Total Expenditures of Federal Awards | \$ 2,857,478 |
| | Percentage of Total Expenditures of Federal Awards | 31.94% |

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

Auditee qualified as low-risk auditee in accordance with 2 CFR 200.520? Yes

City of San Mateo
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2023

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statement Audit

Finding 2023-001 Improve Internal Controls Over Financial Reporting

Criteria:

Management is responsible for the preparation and fair presentation, as well as the accuracy of its financial statements, including disclosures in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. As part of satisfying that responsibility, staff should possess that skills, knowledge, and experience necessary to complete year-end close and diligently employ that knowledge, skill, and experience to produce reliable and accurate financial information.

Generally accepted auditing standards defined internal control as a process – affected by the Members of City Council, management, and other personnel – designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting
- Effectiveness and efficiency of operations, and
- Compliance with applicable laws and regulations.

The Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) established the following framework that stress the need for policies and procedures to promote effective internal control for an entity:

Control Environment – Establish structures, reporting lines, authorities and responsibilities

Risk Assessment – Select and develop control activities that mitigate risks

Control Activities – Deploy control activities through policies and procedures

Information and Communication – Communicate internal control information internally

Monitoring – Evaluations are used to determine if controls are present and functioning

An overall purpose of internal control over financial reporting is to foster the preparation of reliable financial statements and that reliable financial statements must be materially accurate.

Condition:

The City’s monthly bank reconciliation process was not completed timely during the period of the audit. During our review of the bank reconciliation process, we found that 3 out of 4 months of the fiscal year 2022-23 bank reconciliations reviewed had not been completed timely.

Cause:

The City has experienced turnover in key personnel in the City’s finance department in past years. When vacancies occur information can be lost and as individuals are getting up to speed, some processes may not be fully executed if they are manual and not fully embedded into an automated system. In addition, the City implemented a new Accounting Software (Workday) during the fiscal year that created issues in the bank reconciliation process. Staff had to take on additional responsibilities and did not have sufficient resources to properly review and reconcile the sub-ledger to the general ledger to ensure the accuracy of the financials.

City of San Mateo
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2023

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

Finding 2023-001 Improve Internal Controls Over Financial Reporting (Continued)

Context:

Reconciliations and adjustments to year end balances that either are not recorded or are posted after the preparation of fiscal year end reports decreases the reliability and usefulness of the reports. In addition, not following formal policies and procedures regarding internal control over individual transaction cycles could lead to inconsistency in processing transactions and also increase the risk that errors will not be detected and corrected in a timely manner.

Effect:

Due to limited staffing levels faced by the City and a change in the accounting system during the audit period ended June 30 2023, the City did not have in place during our audit period a systematic method for ensuring that timely reconciliation of the bank accounts is completed.

Recommendation:

We recommend that the City put in place procedures in order to improve the timeliness of the reconciliation of the bank accounts to the general ledger. Additional personnel should be considered to enhance the City's internal control over the financial reporting and within each transaction cycle to ensure transactions are thoroughly evaluated, reviewed and recorded in order to facilitate the accurate and complete year-end closing of the general ledger.

View of Responsible Official:

The City concurs with the recommendation.

Action Plan:

In response to the finding and the identified causes, the City is committed to implementing the following corrective actions:

1. Process: The City will conduct a comprehensive review of the bank reconciliation process to identify inefficiencies and streamline procedures where possible. This includes evaluating manual tasks that can be automated to speed up the reconciliation process.
2. Training: Recognizing the importance of institutional knowledge, the Accounting team will prioritize staff cross training and update procedures and documents, including staff desk manuals, to mitigate the impact of staff turnover and ensure timely completion of monthly bank reconciliation.
3. Resources: The City will assess staffing levels and resource allocations within the finance department to ensure adequate support for critical functions such as bank reconciliations. This may involve reallocating responsibilities or seeking additional resources as necessary to alleviate workload pressures and enhance efficiency.

City of San Mateo
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2023

Section II – Financial Statement Findings (Continued)

A. Current Year Findings – Financial Statement Audit (Continued)

Finding 2023-001 Improve Internal Controls Over Financial Reporting (Continued)

View of Responsible Official (Continued):

Timeline and Goal:

The City aims to implement these corrective actions promptly to address the identified deficiencies and improve the timeliness and accuracy of the monthly bank reconciliation process. A detailed timeline for each action item will be developed and communicated internally to ensure accountability and progress tracking. The goal is to complete each month's bank reconciliation within 20 days after the end of the month.

B. Prior Year Findings – Financial Statement Audit

No findings were noted on the City's financial statement audit for the year ended June 30, 2022.

City of San Mateo
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2023

Section III – Federal Award Findings

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit

No findings or questioned costs were noted on the City's major federal programs for the year ended June 30, 2023.

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit

No findings or questioned costs were noted on the City's major federal programs for the year ended June 30, 2022.

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