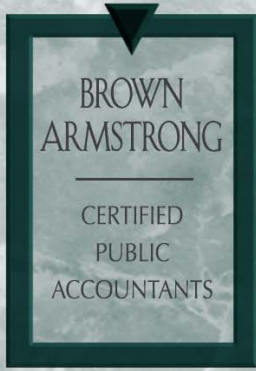


**CITY OF MODESTO**  
**SINGLE AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**CITY OF MODESTO  
SINGLE AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2013**

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BROWN ARMSTRONG
Certified Public Accountants

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 City Council
City of Modesto, California

MAIN OFFICE

4200 TRUXTUN AVENUE

SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

560 CENTRAL AVENUE

SHAFTER, CALIFORNIA 93263
TEL 661.746.2145
FAX 661.746.1218

7673 N. INGRAM AVENUE

SUITE 101
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

221 E. WALNUT STREET

SUITE 260
PASADENA, CALIFORNIA 91101
TEL 626.204.6542
FAX 626.204.6547

5250 CLAREMONT AVENUE

SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

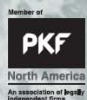
We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto, California (the City), as of and for the year ended June 30, 2013, 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 18, 2013.

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) to determine the 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.



REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

## **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 determination of financial statement amounts. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002.

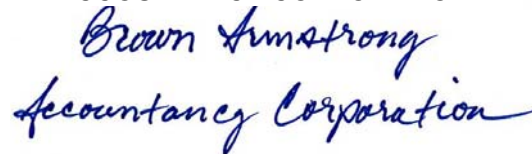
## **City of Modesto, California's Response to Findings**

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

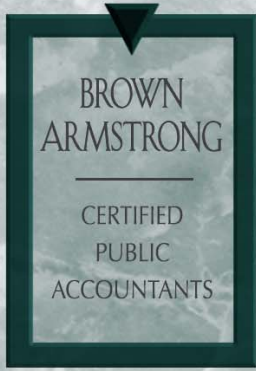
## **Purpose of this Report**

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.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

Handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation".

Bakersfield, California  
December 18, 2013



# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Honorable City Council  
City of Modesto, California

### Report on Compliance for Each Major Federal Program

We have audited the City of Modesto, California’s (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *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, 2013. 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the 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 the City’s compliance.

### Opinion on Each Major Federal Program

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, 2013.

#### MAIN OFFICE

#### 4200 TRUXTUN AVENUE

SUITE 300  
BAKERSFIELD, CA 93309  
TEL 661.324.4971  
FAX 661.324.4997  
EMAIL info@bacpas.com

#### 560 CENTRAL AVENUE

SHAFTER, CALIFORNIA 93263  
TEL 661.746.2145  
FAX 661.746.1218

#### 7673 N. INGRAM AVENUE

SUITE 101  
FRESNO, CALIFORNIA 93711  
TEL 559.476.3592  
FAX 559.476.3593

#### 221 E. WALNUT STREET

SUITE 260  
PASADENA, CALIFORNIA 91101  
TEL 626.204.6542  
FAX 626.204.6547

#### 5250 CLAREMONT AVENUE

SUITE 237  
STOCKTON, CA 95207  
TEL 209.451.4833



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## Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2013-001 and 2013-002. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## Report on Internal Control Over Compliance



Management of the 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 the 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 OMB Circular A-133, 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 the 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.

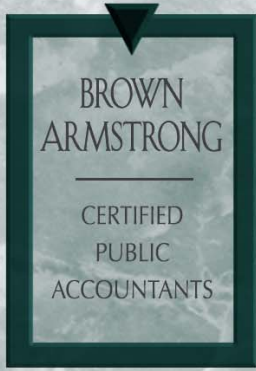
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

Bakersfield, California  
December 18, 2013





BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION - SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Honorable City Council
City of Modesto, California

Report on the Financial Statements

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 of Modesto, California (the City), as of and for the year ended June 30, 2013, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 18, 2013.

Auditor's Responsibility

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the City Council, audit committee, and management of the City, as well as the City's federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation (handwritten signature)

Bakersfield, California
December 18, 2013

MAIN OFFICE

4200 TRUXTUN AVENUE

SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

560 CENTRAL AVENUE

SHAFTER, CALIFORNIA 93263
TEL 661.746.2145
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7673 N. INGRAM AVENUE

SUITE 101
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

221 E. WALNUT STREET

SUITE 260
PASADENA, CALIFORNIA 91101
TEL 626.204.6542
FAX 626.204.6547

5250 CLAREMONT AVENUE

SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833



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**CITY OF MODESTO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Grantor Agency and Award Title	Identifying Pass-Through Grant Number	Federal Catalog Number	Program Expenditures
Department of Housing and Urban Development			
Community Development Block Grants (CDBG) Cluster			
Community Development and Urban Development - NSP	B-08-MN-06-0004	14.218	* \$ 517,250
Community Development and Urban Development	B-06-MC-060002	14.218	* 278,429
Community Development and Urban Development	B-07-MC-60002	14.218	* 227,914
Community Development and Urban Development	B-11-MC-060002	14.218	* 1,828,541
Community Development and Urban Development	B-10-MC-060002	14.218	* 83,756
Community Development and Urban Development	B-12-MC-060002	14.218	* 123,618
ARRA Neighborhood Stabilization Program 3	B-11-MN-06-0004	14.218	* 1,486,269
ARRA Recovery Act - Comm Econ Development - HPRP	S-09-MY-060002	14.218	* 30,678
ARRA Recovery Act - Comm Econ Development - CDBG_R	B-09-MY-060002	14.253	* 64,577
CDBG Cluster Subtotal			4,641,032
Department of Housing and Urban Development			
Emergency Shelter Grants Program	E-11-MC-060002	14.231	54,423
Emergency Shelter Grants Program	E12MC060002	14.231	156,840
Program Subtotal			211,263
Department of Housing and Urban Development			
HOME Investment Partnership Grant	M-12-MC-060207	14.239	11,322
Program Subtotal			11,322
Department of Housing and Urban Development			
ARRA - Neighborhood Stabilization Program 2	B-09-LN-CA-0053	14.256	* 10,725,318
Department of Housing and Urban Development			
Smart Valley Places HUD SCI Grant	SC360080-11-04	14.703	63,696
United States Department of Justice			
Secure our Schools	2011-CK-WX-0027	16.710	* 237,895
COPS 2009 Tech	2009 CKWX 0449	16.710	* 251,112
COPS 2008 Tech	2008 CKWX 0270	16.710	* 131,382
ARRA - CHRP Grant	2009-RJ-WX-0022	16.710	* 355,444
Program Subtotal			975,833
United States Department of Justice			
2010 BJAG - Stanislaus County Fiduciary	2010 DJ BX 0442	16.738	73,850
2011 BJAG - Stanislaus County Fiduciary	2011 DJ BX 2671	16.738	126,969
Program Subtotal			200,819

\* Denotes major program.

See accompanying notes to schedule of expenditures of federal awards and independent auditor's report on compliance for each major program and on internal control over compliance required by OMB Circular A-133.



**CITY OF MODESTO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Grantor Agency and Award Title	Identifying Pass-Through Grant Number	Federal Catalog Number	Program Expenditures
United States Department of Transportation			
ARFF Vehicle	3-06-0153-32	20.106	22,123
NW Apron	3-06-0153-35	20.106	128,372
Environmental Studies	3-06-0153-35	20.106	54,379
Misc. Airport Studies	3-06-0153-35	20.106	724
Program Subtotal			205,598
United States Department of Transportation (Passed through California Department of Transportation)			
Carpenter Road Bridge	10-107724L	20.205	5,856,490
Roundabouts	10-956524L	20.205	681
RT Carp/State and Sisk Secondary	10-956525L	20.205	17,124
Sylvan Ave - Coffee/Oakdale Pvmnt Rehab	10-956904L	20.205	1,309,318
Oakdale Rd - Scenic/Sylvan PVMT Rehab	10-956907L	20.205	88,745
Dale Rd CCTV Cameras	10-956679L	20.205	33,183
Right Turn LNS - 4 Intersections	10-956681L	20.205	239,267
Rideshare Program	10-956691L	20.205	19,489
Rideshare Program	10-12000064L	20.205	3,295
Rideshare Program	10-957056L	20.205	21,415
Right Turn Lane Bangs and Prescott	10-957044L	20.205	3,495
Update Traffic Signals - 2010	10-957053L	20.205	18,132
New Traffic Signals (2010)	10-957052L	20.205	34,279
Retime Downtown Traffic Signals 2010	10-957051L	20.205	12,053
CED - RT Turn Ln Oakdale/Scenic	10-956975L	20.205	17,934
Briggsmore Ave - Sisk Rd. to Mchenry Ave SR108	10-00020623L-N	20.205	84,349
Oakdale/Sylvan Intersct Improv	1000020580L-N	20.205	90,399
Rt Turn Ln McHenry to Briggs	10-00020601	20.205	35,716
Rt Turn Ln at Prescott & Plaza	1000020602L-N	20.205	22,677
Update Traffic Signals - 2013	1000020600	20.205	6,012
Traffic Model Maintenance	1000020579L-N	20.205	82,132
Pavement Condition Survey	10-12000149L-N	20.205	2,329
Pavement Rehabilitation Tully & Dale Rd.	10-12000235L-N	20.205	2,225
N/B McHenry to E/B Briggsmore	10-956944L	20.205	142,671
Pavement Rehabilitation Scenic Dr	10-2000236L-N	20.205	2,291
New Traffic Signals 2013	10-12000045L-O	20.205	6,271
Expand of ATMs & CCTV for Briggsmore Ave	10-2000046L	20.205	3,477
Bus Turnout SB Dale Rd, South of Veneman	10-12000274L-N	20.205	14,101
Right Turn Lane WB D St @ NB 9th St	10-12000275L-N	20.205	11,969
14th ST/D ST (SR132) Intersection	10-12000276L-N	20.205	18,979
E/B Briggsmore to S/B McHenry	10-956942L	20.205	3,016
Landscaping Briggsmore and SR99	10-STA-99-PM	20.205	762
Grade Crossing Safety Improvements - B Street	00-12000075	20.205	32,072
CalTrans 2010 Community Based Transp Planning	74A0554	20.205	29,107
Eastside of Sutter Ave South of Marshall	SRSL-182	20.205	117,553
EI Vista Elementary Improvements	CML-181	20.205	56,120
ARRA - Overlay and ADA Curb Ramp	ESPL-5059(166)	20.205	5,942
Program Subtotal			8,445,070

\* Denotes major program.

See accompanying notes to schedule of expenditures of federal awards and independent auditor's report on compliance for each major program and on internal control over compliance required by OMB Circular A-133.

**CITY OF MODESTO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Grantor Agency and Award Title	Identifying Pass-Through Grant Number	Federal Catalog Number	Program Expenditures
United States Department of Transportation			
Federal Transit Agency			
Federal Transit Cluster			
Transit, Maintenance, and Capital Purchases	CA-90-Y568	20.500	37,092
Transit, Maintenance, and Capital Purchases	CA-90-Y680	20.500	4,422
Transit, Maintenance, and Capital Purchases	CA-03-0562	20.500	414,432
Transit, Maintenance, and Capital Purchases	CA-90-Y870	20.500	3,808,060
Transit, Maintenance, and Capital Purchases	CA-95-X174	20.500	469,971
Transit, Maintenance, and Capital Purchases	CA-04-0198	20.500	184,124
Transit, Maintenance, and Capital Purchases	CA-90-Y754	20.507	<u>131,903</u>
Program Subtotal			<u>5,050,004</u>
United States Department of Transportation			
JARC	CA-37-X101	20.516	<u>186,439</u>
United States Department of Transportation			
New Freedom	CA-57-X027	20.521	<u>44,986</u>
United States Department of Transportation			
(Passed through State of California Office of Traffic Safety)			
Distracted Driver	DD1326	20.600	16,780
STEP Grant 2011-2012	20491	20.600	78,482
Avoid the 12 - City of Turlock Fiduciary	AL0967	20.600	10,149
Sobriety Checkpoint 2012/13	SC1313262	20.608	55,002
Avoid the 12 - City of Ceres Fiduciary	AL1392	20.608	10,809
Step Grant 12/13	PT1324	20.608	<u>48,799</u>
Program Subtotal			<u>220,021</u>
United States Environmental Protection Agency: Office of Water			
(Passed through State Water Resources Control Board)			
Capitalization Grants for Clean Water State Revolving Funds	11-825-550	66.458 *	<u>14,330,805</u>
United States Department of Energy			
ARRA - PRN - Install Foam Roof (EECBG)	0628930 - SC0003034	81.128	321
ARRA - PRN - Install Solar Panels (EECBG)	0628930 - SC0003034	81.128	466
ARRA - PRN - Modesto Centre Plaza Lighting (EECBG)	0628930 - SC0003034	81.128	12,469
ARRA - Energy Eff Impr Mod Facilities	0628930 - SC0003034	81.128	<u>60,804</u>
Program Subtotal			<u>74,061</u>
Total Expenditures of Federal Awards			<u>\$ 45,386,267</u>

\* Denotes major program.

See accompanying notes to schedule of expenditures of federal awards and independent auditor's report on compliance for each major program and on internal control over compliance required by OMB Circular A-133.

**CITY OF MODESTO**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**NOTE 1 – REPORTING ENTITY**

The Schedule of Expenditures of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Modesto, California, (the City) and its component units as disclosed in the Notes to the City's Basic Financial Statements.

**NOTE 2 – BASIS OF ACCOUNTING**

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

**NOTE 3 – DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS**

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types Federal award programs when they occur.

**CITY OF MODESTO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

***Financial Statements***

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? \_\_\_\_\_ Yes   X   No
- Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None Reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes   X   No

***Federal Awards***

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

Internal control over major federal programs:

- Material weakness identified? \_\_\_\_\_ Yes   X   No
- Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes   X   None reported

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?   X   Yes \_\_\_\_\_ No

Identification of major programs:

<u><b>CFDA #(s)</b></u>	<u><b>Name of Federal Program or Cluster</b></u>
14.218/14.253	Community Development Block Grant Cluster, including ARRA Grants
14.256	ARRA - Neighborhood Stabilization Program 2
16.710	COPS Technology Grant, including ARRA Grants
66.458	Capitalization Grants for Clean Water State Revolving Funds

The threshold for distinguishing type A and B programs was \$1,039,828.

Auditee qualified as low-risk auditee?   X   Yes \_\_\_\_\_ No

## SECTION II – FINANCIAL STATEMENT FINDINGS

No findings were noted in the current year that require reporting in accordance with *Government Auditing Standards*.



### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

#### **2013-001:**

**Program:** Neighborhood Stabilization Program 2, including ARRA Grants

**CFDA No.:** 14.256

**Federal Agencies:** U.S. Department of Housing and Urban Development

**Passed-Through:** N/A

**Award Numbers:** B-09-LN-CA-0033

**Award Year:** Fiscal Year 2012/13

**Compliance Requirement:** Subrecipient Monitoring

**Questioned Costs:** None.

#### **Criteria:**

U.S. Office of Management and Budget (OMB) Circular A-133, requires recipients of Federal awards who pass through funds to subrecipient to perform monitoring procedures on those sub-recipients to ensure to provide reasonable assurance that the subrecipient administers Federal awards in compliance with Federal requirements and achieves performance goals.

#### **Condition:**

No subrecipient monitoring procedures were performed during the fiscal year for the subrecipients of NSP 2 grant funding.

#### **Cause:**

The City staff efforts were focused on the close-out activities for both the NSP 2 and NSP 3 projects and made that a priority over monitoring activities during the current fiscal year.

#### **Effect:**

Not monitoring the subrecipient activities and audit reports on a timely basis could result in the subrecipients falling out of compliance, or not following through with the required six month requirement to remediate audit findings via their management action plans in accordance with Federal requirements, of which can be unknown to the City as no monitoring has taken place. This can impact the City as the City may no longer be able to use the subrecipient due to noncompliance issues and any questioned costs may need to be remitted back to the granting agency.

#### **Recommendation:**

We recommend that the City allocate additional staff time to perform the required subrecipient monitoring across the NSP 2 projects to remain in compliance with the grant guidelines.

#### **Management Response/Corrective Action Plan:**

The City of Modesto has not yet performed the NSP2 developer monitoring for this past cycle. Due to a large degree of staff turnover and adjustment of duties over the last year we have pushed the monitoring back into the new year. We anticipate closing the majority of open projects with NSP 1, 2, & 3 by the end of March 2014 allowing us to properly devote the necessary staff time that comes with monitoring such a large volume of properties. The City has not failed to comply with any HUD regulations as it completed all initial "Master" monitoring for all complete NSP2 projects in FY 11-12. The follow-up monitoring has already been scheduled for the Spring of 2014.

**2013-002:**

**Program:** Capitalization Grants for Clean Water State Revolving Funds

**CFDA No.:** 66.458

**Federal Agencies:** U.S. Environmental Protection Agency

**Passed-Through:** California State Water State Resource Control Board

**Award Numbers:** 11-825-550

**Award Year:** Fiscal Year 2012/13

**Compliance Requirement:** Davis-Bacon

**Questioned Costs:** None.

**Criteria:**

The OMB Circular A-133 Davis Bacon requirement requires for the contractor or subcontractor of the grantee to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls) (29 CFR Sections 5.5 and 5.6).

**Condition:**

The primary contractor was not requesting and compiling the required weekly certified payrolls from several subcontractors on a timely basis. All certified payrolls were available at the time of the audit, but they were not submitted to the City within the required weekly (or bi-weekly) period per the Davis Bacon requirements.

**Cause:**

There is no weekly review of certified payrolls that have been collected from the subcontractors. In addition, there is no timely reconciliation to determine which subcontractors are required to submit the payroll, and if they are, to request them within a reasonable time. Although it is not the direct responsibility of the City to do this as this responsibility lies with the primary contractor, the City deals with the primary contractor and can put pressure on them to submit the required documentation on time.

**Effect:**

Noncompliance with the above mentioned criteria could result in financial penalties or loss of grant funding.

**Recommendation:**

We recommend the City request the primary contractor to obtain all required certified payrolls every week (or bi-weekly if applicable) and submit them to the City within a reasonable time in accordance with the Davis Bacon requirements. In addition, we recommend the City perform its own reconciliation to determine all required certified payrolls for applicable subcontractors are being submitted in order to ensure compliance with the Davis Bacon requirements.

**Management Response/Corrective Action Plan:**

Each month the City collects the certified payrolls from the contractor and they are in turn reviewed by the Construction Administration Division. One step that appears to be an oversight on the City's part was checking payrolls against the daily reports, ensuring that all payrolls have been submitted by the contractor. The City has advised the contractor of the situation and the plan from here forward is that the contractor shall submit their own list of the subcontractors that were working on site for that pay period and the City will back check that list against the daily reports. Per the contract documents, the City can hold off on approving their progress payment until all payrolls are submitted. Additionally, if the Construction Administration Division finds discrepancies, or missing payrolls, they can advise of a deduction to be made from GSE's (primary contractor) progress payment. Though this oversight was made, the City believes that it can easily correct the process and ensure that all payrolls are submitted and reviewed in a timely manner and in accordance with the Davis Bacon requirements.

#### **SECTION IV – STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

No findings were noted in the prior year that require reporting in accordance with *Government Auditing Standards*.