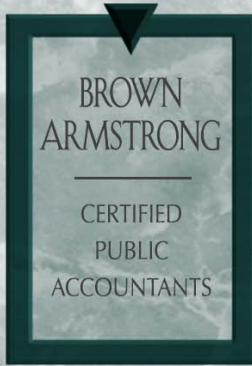


**CITY OF MODESTO**  
**SINGLE AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**CITY OF MODESTO  
SINGLE AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2014**

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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

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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, 2014, 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 19, 2014.

### **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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City's internal control. Accordingly, we do not express an opinion on the effectiveness of City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness: Finding 2014-01.

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. There were no significant deficiencies as of and for the year ended June 30, 2014.

## **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*.

We also noted certain matters that we reported to management of the City in a separate letter dated December 19, 2014.

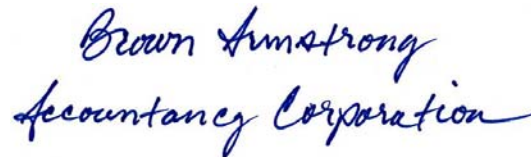
## **City of Modesto's Response to Findings**

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.

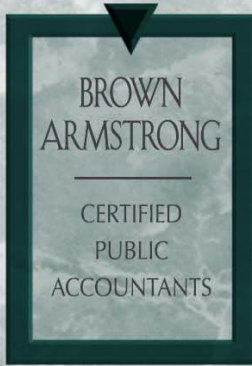
## **Purpose of this Report**

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

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style and is positioned below the printed name of the company.

Bakersfield, California  
December 19, 2014



# 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

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### **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, 2014. 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, 2014.

## 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.

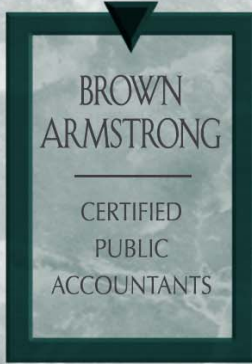
The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California  
December 19, 2014





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, 2014, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 19, 2014.

**Auditor's Responsibility**

Our audit was performed for the purpose of forming an opinion 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 (OMB) 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

Bakersfield, California  
December 19, 2014

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**CITY OF MODESTO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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	B-07-MC-060002	14.218	\$ 139,061
Community Development and Urban Development	B-08-MC-060002	14.218	80,192
Community Development and Urban Development	B-13-MC-060002	14.218	91,069
Community Development and Urban Development	B-11-MC-060002	14.218	168,396
Community Development and Urban Development	B-12-MC-060002	14.218	1,617,854
ARRA Neighborhood Stabilization Program 3	B-11-MN-06-0004	14.218	<u>1,383,741</u>
CDBG Cluster Subtotal			<u>3,480,313</u>
Department of Housing and Urban Development			
Emergency Shelter Grants Program	E-12-MC-060002	14.231	12,105
Emergency Shelter Grants Program	E-13-MC-060002	14.231	<u>124,300</u>
Program Subtotal			<u>136,405</u>
Department of Housing and Urban Development			
HOME Investment Partnership Grant	M-08-MC-060207	14.239	263,897
HOME Investment Partnership Grant	M-09-MC-060207	14.239	353,546
HOME Investment Partnership Grant	M-10-MC-060207	14.239	38,588
HOME Investment Partnership Grant	M-11-MC-060207	14.239	76,225
HOME Investment Partnership Grant	M-12-MC-060207	14.239	104,910
HOME Investment Partnership Grant	M-13-MC-060207	14.239	72,214
HOME Investment Partnership Grant	M-97-MC-060207	14.239	250
HOME Investment Partnership Grant	M-99-MC-060207	14.239	<u>8,457</u>
Program Subtotal			<u>918,087</u>
Department of Housing and Urban Development			
ARRA - Neighborhood Stabilization Program 2	B-09-LN-CA-0053	14.256	<u>615,338</u>
Department of Housing and Urban Development			
Smart Valley Places HUD SCI Grant	SC360080-11-04	14.703	<u>46,955</u>
United States Department of Justice			
Secure our Schools	2011-CK-WX-0027	16.710	29,330
ARRA - CHRP Grant	2009-RJ-WX-0022	16.710	<u>202,302</u>
Program Subtotal			<u>231,632</u>
United States Department of Justice			
COPS TECH 2009	2009 CK WX 0449	16.738	21,560
2010 BJAG - Stanislaus County Fiduciary	2010 DJ BX 0442	16.738	79,243
2012 BJAG - Stanislaus County Fiduciary	2012-DJ-BX-1005	16.738	<u>94,384</u>
Program Subtotal			<u>195,187</u>

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, 2014**

Grantor Agency and Award Title	Identifying Pass-Through Grant Number	Federal Catalog Number	Program Expenditures
United States Department of Transportation			
NW Apron	3-06-0153-35	20.106	242
Misc. Airport Studies	3-06-0153-35	20.106	482
Program Subtotal			724
United States Department of Transportation (Passed through California Department of Transportation)			
Carpenter Road Bridge	10-107724L	20.205	2,112,700
2010 Pavement Condition Survey	10-956895L	20.205	64,788
Sylvan Ave-Coffee/Oakdale Pvmnt Rehab	10-956904L	20.205	335
Oakdale Rd-Scenic/Sylvan Pvmnt Rehab	10-956907L	20.205	1,340,209
Dale Rd CCTV Cameras	10-956679L	20.205	197
Rideshare Program	10-12000064L	20.205	13,116
Rideshare Program	10-957056L	20.205	20,534
RT Turn Lane Bangs and Prescott	10-957044L	20.205	28,977
Upgrade Traffic Signals 2010	10-957053L	20.205	47,817
New Traffic Signals 2010	10-957052L	20.205	57,809
Retime Downtown Traffoc Signals 2010	10-957051L	20.205	8,906
CED - Right Turn Ln Oakdale/Scenic	10-956975L	20.205	23,410
7th St Over Tuolomne River	10-956902L	20.205	50,642
Briggsmore Ave - Sisk Rd To McHenry Ave SR108	10-00020623L-N	20.205	97,225
Oakdale/Sylvan Intrscct Improv	1000020580L-N	20.205	6,811
RT Turn Ln McHenry to Briggs	10-00020601	20.205	20,219
RT Turn Ln at Prescott and Plaza	1000020602L-N	20.205	4,343
UpgradeTraffic Signals - 2013	1000020600	20.205	34,494
Traffic Model Maintenance	1000020579L-N	20.205	81,903
Pavement Condition Survey	10-12000149L-N	20.205	174,724
Pavement Rehabilitation Tully and Dale Rd	10-12000235L-N	20.205	153,500
N/B McHenry to E/B Briggsmore	10-956944L	20.205	13,662
Pavement Rehabilitation Scenic Dr	10-2000236L-N	20.205	14,973
New Traffic Signals 2013	10-12000045L-O	20.205	28,389
Expand of ATM'S & CCTV For Briggsmore Ave	10-2000046L	20.205	8,990
Bus Turnout SB Dale Rd, South of Veneman	10-12000274L-N	20.205	23,891
Right Turn Lane WB D St @ NB 9th St	10-12000275L-N	20.205	50,164
14th St/D St/(SR132) Intersection	10-12000276L-N	20.205	20,138
Virginia Corridor Phase VI-Bowen to Woodrow	1013000231L-N	20.205	1,621,224
Grafe Crossing Safety Improvements S - B Street	00-12000075	20.205	44,387
Eastside of Sutter Ave South of Marshall	1000020519	20.205	293,489
El Vista Elementary Improvements	1000020518	20.205	301,674
Traffic Signal Synchronization	1013000085	20.205	6,281
SR 99/Pelandale Avenue Iinterchange Reconstruction	10-956524L	20.205	1,469,863
ARRA Overlay and ADA Curb Ramp	10-956915L	20.205	19
Program Subtotal			8,239,803

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, 2014**

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			
Tranist Capital Investment Grant	CA-03-0562	20.500	88,693
Transit, Maintenance, and Capital Purchases	CA-90-Y870	20.500	2,305,011
Transit, Maintenance, and Capital Purchases (SGR)	CA-04-0198	20.500	20,085
Transit, Maintenance, and Capital Purchases	CA-90-Y754	20.507	1,219,823
Transit, Maintenance, and Capital Purchases	CA-90-Z064	20.507	<u>1,832,841</u>
Program Subtotal			<u>5,466,453</u>
United States Department of Transportation			
JARC	CA-37-X101	20.516	<u>50,116</u>
United States Department of Transportation			
New Freedom	CA-57-X027	20.521	<u>44,518</u>
United States Department of Transportation			
(Passed through State of California Office of Traffic Safety)			
Sobriety Checkpoint 13/14	SC14262	20.600	46,900
Avoid The 12 - City of Ceres Fiduciary	AL1444	20.600	24,177
Distracted Driver	DD1326	20.600	7,990
Step Grant 12/13	PT1324	20.608	38,924
Step Grant 13/14	PT14113	20.608	94,131
Sobriety Checkpoint 12/13	SC1313262	20.608	23,586
Avoid The 12 - City of Ceres Fiduciary	AL1392	20.608	<u>9,059</u>
Program Subtotal			<u>244,767</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>11,455,586</u>
Total Expenditures of Federal Awards			<u><u>\$ 31,125,884</u></u>

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, 2014**

**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 of Federal award programs when they occur.

**CITY OF MODESTO  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2014**

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

***Financial Statements***

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified?   X   Yes        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)?        Yes   X   No

Identification of major programs:

<u>CFDA #(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant Cluster, including ARRA Grants
14.256	ARRA - Neighborhood Stabilization Program 2
20.500/20.507	Federal Transit Cluster

The threshold for distinguishing type A and B programs was \$915,316.

Auditee qualified as low-risk auditee?   X   Yes        No

## SECTION II – FINANCIAL STATEMENT FINDINGS

### **2014-01: Construction in Progress**

#### Criteria:

In accordance with accounting principles generally accepted in the United States of America, the capitalization of an asset shall occur when an asset is substantially complete and ready for its intended use.

#### Condition:

During our construction in progress testing, we noted six projects that should have been capitalized in the prior year fiscal year as no project activity occurred during fiscal year 2013-14. The six projects in question are the Dale/Kiernan Intersection, Virginia Corridor Phase III, ARRA Street Overlay ADA Ramp, Parking Garage Projects, CAD Computer Aid Dispatch, and Downtown Affordable Housing Land Acquisition, representing a \$16.2 million total improvement capital asset.

#### Cause:

Per discussion with management, projects are not closed until the project manager submits the closing documents to the Finance Department which verifies the completion of the project. The City leaves projects in the open status through a warranty period of about one year to adjust the capitalized cost for any additional expenses. Upon receipt of the closing document, the Finance Department is authorized to move the project from Construction In Progress (CIP). Upon further discussion, the City recognizes this is a wide-spread concern for all CIP projects and the City will address this issue in an adjustment to the fiscal year 2015 financial statements.

#### Effect:

Failing to capitalize a completed project in a timely manner overstates CIP and understates depreciation expense as projects should be moved out of CIP and subsequently depreciated shortly after completion.

#### Recommendation:

We recommend that the City review project activity a month prior to fiscal year-end and investigate those projects that have experienced minimal expenditure activity in the past year for possible completion. These projects should then be removed from CIP and capitalized.

#### Management Response/Corrective Action Plan:

The City will modify the existing Capital Project Closure form to implement a warranty period identifier which will require all departments to submit a closure form once the project is completed and in service based on the Council acceptance date. The warranty period identifier will be used to justify the need to reopen the project in the future if there are any warranty issues identified through the warranty period end date. Additionally, the Accounting division will be reviewing all active capital projects semi-annually and any projects with minimal to no activity will be reviewed by the project manager to determine if the project should be capitalized.



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

There were no findings identified in fiscal year ending June 30, 2014 that require reporting in accordance with *Government Auditing Standards*.

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

### **2013-001:**

**Program:** Neighborhood Stabilization Program (NSP) 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 NSP 2 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 NSP 2 projects in fiscal year 11-12. The follow-up monitoring has already been scheduled for the Spring of 2014.

#### Current Year Status:

Implemented

**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.

**Current Year Status:**

Implemented