

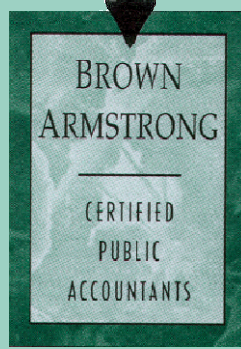
**CITY OF MODESTO**  
**SINGLE AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2009**

**CITY OF MODESTO  
SINGLE AUDIT REPORT  
FOR THE YEAR ENDED JUNE 30, 2009**

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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**

The Honorable Mayor and City Council  
of the City of Modesto, California

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, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 30, 2009. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2009-1 through 2009-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and questioned costs section as Finding 2009-4.

The City of Modesto, California's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Modesto, California's response and, accordingly, we express no opinion on it.

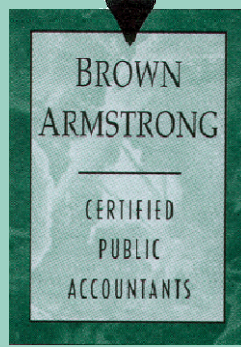
This report is intended solely for the information and use of the City Council, audit committee and management of the City as well as the City's federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "G. H. H.", is positioned below the company name.

Bakersfield, California  
November 30, 2009

Peter C. Brown, CPA  
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**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and City Council  
of the City of Modesto, California

Compliance

We have audited the compliance of the City of Modesto, California (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Modesto, California's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in item 2009-04 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding reporting activities that are applicable to its Federal Transit Cluster (CFDA No. 20.500 and 20.507). Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its other major federal programs for the year ended June 30, 2009.

### Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

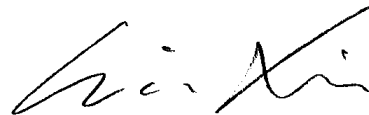
A *control deficiency* in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control over compliance described in the accompany Schedule of Findings and Questioned Costs as item 09-01 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. However, we believe that none of the significant deficiencies described above is a material weakness

The City of Modesto, California's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Modesto, California's response and, accordingly, we express no opinion on it.

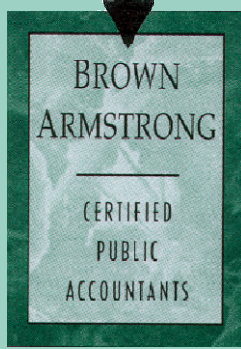
This report is intended solely for the information and use of the City Council, the audit committee and management of the City as well as the City's federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION



Bakersfield, California  
November 30, 2009

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## REPORT ON SUPPLEMENTARY INFORMATION – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Honorable Mayor and City Council  
of the City of Modesto, California

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, 2009, which collectively comprise the City's basic financial statements, and have issued our report thereon, dated November 30, 2009.

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 OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken 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

A handwritten signature in black ink, appearing to read "Eric H. Xin".

Bakersfield, California  
November 30, 2009

**CITY OF MODESTO  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Grantor Agency and Award Title	Identifying Pass-Through Grant Number	Federal Catalog Number	Program Expenditures
Department of Housing and Urban Development Community Development and Urban Development	B-04-MC-060002	14.218	* \$ 206,518
	B-07-MC-060002	14.218	* 1,093,229
	B-08-MC-060002	14.218	* 1,134,570
	B-08-MN-060004	14.218	* <u>37,859</u>
Program Subtotal			<u>2,472,176</u>
Community Development and Urban Development - ARRA	S-09-MY-06-0002	14.218	* 6,978
	B-09-MY-06-0002	14.218	* <u>2,545</u>
Program Subtotal			<u>9,523</u>
Total Community Development and Urban Development			<u>2,481,699</u>
Department of Housing and Urban Development Emergency Shelter Grants Program	S-07-MC-060002	14.231	7,071
	S-08-MC-060002	14.231	<u>100,393</u>
Program Subtotal			<u>107,464</u>
Department of Housing and Urban Development HOME Investment Partnership Grant	M-02-MC-060207	14.239	* 125,001
	M-04-MC-060207	14.239	* 20,998
	M-98-MC-060207	14.239	* 5,187
	M-05-MC-060207	14.239	* 364,992
	M-06-MC-060207	14.239	* 1,112,831
	M-07-MC-060207	14.239	* 308,840
	M-08-MC-060207	14.239	* <u>130,094</u>
Program Subtotal			<u>2,067,943</u>
United States Department of Justice 2008 Bulletproof Vest Partnership Program	N/A	16.607	<u>2,213</u>
United States Department of Justice Gang Resistance Education and Training Program	2007-JV-FX-0152	16.737	<u>41,923</u>

\* Denotes major program.

See accompanying notes to schedule of expenditures of federal awards and report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.



**CITY OF MODESTO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Grantor Agency and Award Title	Identifying Pass-Through Grant Number	Federal Catalog Number	Program Expenditures
United States Department of Justice			
2005 Edward Byrne Memorial Justice Assistance Grant	2007-DJ-BX-1689	16.738	116,260
2006 Edward Byrne Memorial Justice Assistance Grant	2007-DJ-BX-0140	16.738	5,746
2008 Edward Byrne Memorial Justice Assistance Grant	2008-DJ-BX-0503	16.738	41,531
Program Subtotal			<u>163,537</u>
United States Department of Justice			
Anti-Gang Initiative Agreement	AG07017345	16.744	14,718
Anti-Gang Initiative Agreement	AG07017345	16.744	89,977
Program Subtotal			<u>104,695</u>
United States Department of Transportation			
Airport Noise Study	3-06-0153-30	20.106	39,059
Airport Runway Safety	3-06-0153-32	20.106	102,576
Airport Approach Rehabilitation	3-06-0153-32	20.106	96,060
Planning Studies	3-06-0153-33	20.106	74,396
Program Subtotal			<u>312,091</u>
United States Department of Transportation (Passed through California Department of Transportation)			
State Route 219	CML-5059(156)	20.205	6,062
Carpenter Road Bridge	BRLSZA-064	20.205	8,826
Virginia Corridor -Phase V	RPSTPLE-5059(090)	20.205	23,710
Synch Signals Outside Downtown 127	CML-127	20.205	45,437
Pavement Condition Survey	STPL-132	20.205	103,038
Roundabouts (3)	CML-133	20.205	3,004
RT Carp/State & SISK Secondary	CML-134	20.205	25,128
Upgrade Signals	CML-136	20.205	347,533
T/S New SISK/Vintage Faire & Claus Sylvan/Floyd/Lincoln	CML-138	20.205	632,164
Claus Road A/C Overlay	STPL-142	20.205	15,232
9TH Street At Two Locations	STPL-130/143	20.205	49,943
Roadwork Rehab at Palendale	STPL-5059(146)	20.205	13,512
Dale Road CCTV Cameras	CML-148	20.205	27,660
Right Turn Lights - 4 Intersections	CML-149	20.205	9,232
New Traffic Signals (2008)	CML-150	20.205	19,031
Rideshare Program	CML-151	20.205	14,108
Conant Avenue - Curbs and Gutters	CML-152	20.205	19,793
Roundabouts Hillglen	CML-5059(153)	20.205	18,805
Lime Green School Zone Signs	HSIPL-155	20.205	42,258
Virginia Corridor - Phase V	HPLUL-5059(157)	20.205	207,249
Landscaping Briggsmore & SR99	SHOPP TEA	20.205	377,798
Virginia Corridor Phase III	TSCP-03-129	20.205	8,396
Pelandale CCTV/Fiber Optics	CML-118	20.205	181,799
Sylvan Avenue From McHenry-Coffee	STPL-123	20.205	881,980
Rideshare Program	CML-140	20.205	48,092
Roadway Resurfacing	STPL-145	20.205	23,078
Program Subtotal			<u>3,152,868</u>

\* Denotes major program.

See accompanying notes to schedule of expenditures of federal awards and report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.

**CITY OF MODESTO**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

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			
Federal Transit - Formula Grant	CA-90-X720	20.507 *	38,800
Federal Transit - Formula Grant	CA-90-Y162	20.507 *	184,716
Federal Transit - Formula Grant	CA-90-Y310	20.507 *	293,492
Federal Transit - Formula Grant	CA-90-Y393	20.507 *	36,008
Federal Transit - Formula Grant	CA-90-Y487	20.507 *	114,723
Federal Transit - Formula Grant	CA-90-Y568	20.507 *	394,846
Federal Transit - Formula Grant	CA-90-Y680	20.507 *	2,384,046
Capital Investment Grant	CA-03-0562	20.500 *	48,833
Program Subtotal			<u>3,495,464</u>
United States Department of Transportation (Passed through State of California Office of Traffic Safety)			
Avoid the 12th	AL0684	20.600	33,668
Avoid the 12- City of Turlock Fiduciary	AL0967	20.600	18,680
Buckle Up Stanislaus	OP0706	20.600	53,738
Buckle Up Stanislaus	OP0902	20.600	73,939
Vehicle Impound\Step	PT0740	20.600	91,691
Alcohol Beverage Control (ABC)	07G-LA19	20.601	11,589
Alcohol Beverage Control (ABC)	08G-LA17	20.601	100,000
Program Subtotal			<u>383,305</u>
United States Environmental Protection Agency			
Commercial Food Waste Collection	X196951501-2	66.606	<u>15,093</u>
Total Expenditures of Federal Awards			<u>\$ 12,328,295</u>

\* Denotes major program.

See accompanying notes to schedule of expenditures of federal awards and report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133.

**CITY OF MODESTO  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2009**

**NOTE 1 – REPORTING ENTITY**

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Modesto, California, and its component units as disclosed in the Notes to the 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, 2009**

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

***Financial Statements***

Type of Auditor’s Report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  Yes  No

***Federal Awards***

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

Internal control over major federal programs:

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

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

Identification of major programs:

<u>CFDA #(s)</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant (CDBG), including ARRA Grant
14.239	Home Investment Partnership Grants
20.500, 20.507	Federal Transit Cluster

The threshold for distinguishing type A & B programs was \$369,849.

Auditee qualified as low-risk auditee?  Yes  No

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**2009-1 – Travel Expenses**

Condition

We noted during our audit procedures regarding employee reimbursements, mathematical errors in mileage reimbursements and the footing of the reimbursement form. Furthermore, we noted errors in mileage rate and/or lack of support for mileage driven. We also noted receipts that did not support the submitted Cash Advance/Expense Claim forms. Receipts were improper as they were neither itemized and/or lacked a description of the items purchased.

### Recommendation

It is our recommendation that Department Heads and City Clerk/Auditor should review in full detail and take more time to ensure reimbursements are calculated correctly and the mileage reimbursement rate used is current with the IRS standard rate. Reviewer should also take time to verify that the receipts submitted, properly support the reimbursements listed on the reimbursement claim forms before authorizing reimbursement. The City's Travel Policy should also indicate whether or not toll bridge receipts are required; and if not, then the toll bridges that are exceptions to the rule.

### Management Response

City staff will implement a new process to have all employee reimbursements reviewed by the Principal Accountant to ensure accuracy. The City will review the Travel Policy to determine whether the toll bridge cost is an allowable employee reimbursement.

## **2009-2 – Accounts Payable – Outstanding Checks**

### Condition

We noted during the course of our audit procedures; while reviewing long outstanding checks that there were several checks that were outstanding for more than two years.

### Recommendation

It is our recommendation that the City should adopt more controls that could be implemented to write off those accounts payable that are outstanding in excess of a year.

### Management Response

Due to staff limitations, the City was not able to review all of the outstanding checks for Accounts Payable and through the audit process the City had completed a review through 2007. The City will continue to work on reviewing these outstanding checks to ensure we only have an excess of a year outstanding.

## **2009-3 – Journal Entry Support**

### Condition

We noted during the course of our audit procedures, that general journal vouchers (GJV's) do not always have the proper support attached. GJV's are prepared and authorized as necessary by the various departments in the City. As such, documentation is kept in the department and just the GJV is given to the finance department to post to AFIN.

### Recommendation

It is our recommendation that the City should require the issuing department to provide the proper support with the GJV when submitted to the Finance Department for posting to ensure that the GJV is accurate and valid.

### Management Response

The City will ensure all departments outside of the Finance department provide supporting documentation for any GJV's requested to be processed. For some divisions within Finance such as Accounts Receivable the supporting documentation is maintained within this division because the supporting documentation can be over 100 pages. The City will ensure all supporting documentation is maintained within the Finance Department and will ensure all departments outside of Finance provide support.

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

Our audit disclosed the following findings and questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133.

#### **2009-04**

**Program:** Federal Transit Cluster

**CFDA No.:** 20.500 and 20.507

**Federal Agencies:** U.S. Department of Transportation

**Award Numbers:** City of Modesto

**Award Year:** Fiscal year 2008/2009

**Compliance Requirement:** Reporting

**Questioned Costs:** None

**Program Affected:** Federal Transit – Capital Investment Grants (CFDA # 20.500 and 20.507)

**Criteria:** Code 49 CFR 26.11 stipulates that the City is required to submit a Disadvantaged Business Enterprises progress report (DBE) semi-annually based on a recordkeeping system to monitor progress of the DBE program.

**Condition:** We reviewed the Disadvantaged Business Enterprise progress report for the period April 1, 2008 through September 30, 2008 as submitted by the City to the Federal Transit Administration. It was noted that the report was dated and submitted to the FTA on December 17, 2008. The reporting deadline for that reporting period is December 1, 2008. The report was submitted after the filing deadline, and there was no filing extension requested or granted.

**Cause:** City staff was aware of the reporting deadline, however preparation and completion of the report and submission is not being completed prior to the reporting deadline.

**Recommendation:** The City should ensure that all reporting deadlines are being met for all financial and progress reports that are to be submitted in accordance with federal guidelines. The City should work with department managers to ensure that the reporting process is being documented and met on a consistent basis, to ensure that all reports are submitted in a timely manner.

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

The City of Modesto is committed to maintaining full compliance with the requirements of all grants its receives. Transit staff will ensure that all future required reports will be filed in a timely manner.

#### **Program Contact:**

Fred Cavanah, Transit Manager

209-577-5298

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

### 2008-01 Monitoring of Subrecipients

**Program Affected:** Housing and Urban Development – Emergency Shelter Grants Program (CFDA #14.231)

**Criteria:** Circular A-133 section .400(d)(3) requires the City to monitor the activities of subrecipients as necessary to ensure the funding is used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

**Condition:** We understand the City performed monitoring of subrecipients receiving the Emergency Shelter Program funding for grant compliance during fiscal year 2008, however, files supporting the monitoring of subrecipients could not be located. We were unable to determine that adequate monitoring was performed to ensure the subrecipients are in compliance with grant terms.

**Effect:** Without proper documentation it cannot be determined that adequate monitoring has been performed. Without sufficient monitoring, the risk of subrecipients using funds in a noncompliant manner is increased.

**Cause:** It appears that a change in City staffing related to the Emergency Shelter Program along with the involvement of an outside agency contracted to perform the monitoring has led to the inability to locate the monitoring records.

**Recommendation:** Sufficient detail of monitoring should be maintained and readily available for review. By doing so, matters of noncompliance can be documented and actions can be performed to assist in preventing further noncompliance. Also, maintaining records of monitoring will document that the City is taking measures to ensure the subrecipients' compliance with grant terms.

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

According to the Code of Federal Regulations and the Deskguide written specifically for this program, there is no set timeline for monitoring to occur. Therefore, the program operations for FY 2007-2008 will be reviewed again as part of the monitoring that will take place during the FY 2008-2009 fiscal year and a complete set of records related to this monitoring will be retained by City staff.

#### **Program Contact:**

Julie Hannon, Acting Director  
Park, Recreation and Neighborhoods Dept.  
209-577-5417

**Current Year Status:** Implemented.

### 2008-02 Documenting the Purpose of Staffing Costs for Compliance with Grant Limitations

**Program Affected:** Housing and Urban Development – Emergency Shelter Grant Program (CFDA #14.231)

**Criteria:** Code 24 CFR 576.21(a)(3) stipulates that no more than ten percent of the Emergency Shelter Grant may be used for staff costs, however, the limitation does not apply to staff costs associated with providing essential services as defined in Code 24 CFR 576.3. Essential services include, but are not limited to, services concerned with employment, health, drug abuse, and education.

**Condition:** We reviewed the supporting documentation for two payments to the City's subrecipient, the Salvation Army, and found that \$27,967 of grant funds were used to fund staffing costs. The City's total Emergency Shelter Program Grant in fiscal year 2008 was \$104,750, which means a staffing cost limit of \$10,475. While City staff has indicated that the services provided by the Salvation Army are essential services, the subrecipient agreement with the Salvation Army does not provide this information. The Salvation Army has indicated that the services provided by its staff during the shelter intake process

includes "check in returning guests, check in and monitor prescription medications, do a needs assessment and either provide the assistance or refer the client to agencies who can help, assign each one to a clean bed, provide hot meals, along with daily changes of socks (dry feet help to keep them well), and changes of clothing if necessary. All our clients are checked through Megan's Law, to help insure the safety of all clients."

**Effect:** Based on the definition of Code 24 CFR 576.3 for essential services, although the services provided by the Salvation Army staff under the agreement appear to include the health of the homeless seeking shelter, we were unable to definitively determine whether the staff were providing essential services.

**Cause:** City staff was aware of the services provided by the Salvation Army, defined them as essential services, and knew that essential services were not subject to the ten percent limitation.

**Recommendation:** The City should ensure that subrecipient agreements specifically state the services to be provided with the grant funding. The City should work with the grantor to ensure that the staffing costs funded by the grant were allowable under the essential services category. In the future, the City should ensure that it establishes procedures to see that all subrecipient activity is in compliance with the grant requirements.

**Management Response and Corrective Action Plan:**

According to the Deskguide for this program, which is HUD's interpretation of the more complex Code of Federal Regulations, staff salaries for intake and evaluation services are considered "Essential Services." As such, they are not subject to a limit. This understanding has been confirmed in discussions with the City's Community Planning & Development representative from HUD as the program has been established. Other salaries for the operation of the program, maintenance of the facility and for administrative functions are subject to a cap. Since the salary costs reflected in this program represent all of these functions, the amounts reflected in the cost reports are allowable in the amounts shown.

**Program Contact:**

Julie Hannon, Acting Director  
Park, Recreation and Neighborhoods Dept.  
209-577-5417

**Current Year Status:** Implemented.

**2008-03      Informing Subrecipients of the CFDA Number of Federal Programs**

**Program Affected:** Housing and Urban Development – Emergency Shelter Grants Program (CFDA #14.231)

**Criteria:** OMB Circular A-133 section .400(d)(1) requires that pass through entities identify federal awards by informing subrecipients of the CFDA title and number.

**Condition:** During our testing of the subaward agreements for The Salvation Army of Modesto and Interfaith Ministries of Greater Modesto, we noted that the CFDA number for the Emergency Shelter Grant was not indicated in the agreements.

**Effect:** The City's subrecipients may not be aware of federal funding, and the City is not in compliance with the provision of OMB Circular A-133.

**Cause:** City staff was not aware of this requirement.

**Recommendation:** The City should ensure that all subrecipients are informed of the federal program name and CFDA number. The City should consider revising its future subrecipient agreements to include this information.



**Management Response and Corrective Action Plan:**

The City will begin disclosing the CFDA number in all future contracts with subrecipients. Where there are existing contracts with subrecipients, a notice will be sent to the subrecipient notifying them of the federal program name and CFDA number.

**Program Contact:**

Julie Hannon, Acting Director  
Park, Recreation and Neighborhoods Dept.  
209-577-5417

**Current Year Status:** Implemented.

**2008-04      Submission of Reimbursement Requests Every Six Months**

**Program Affected:** Department of Transportation (Passed through California Department of Transportation) – Highway Planning and Construction (CFDA #20.205)

**Criteria:** Section 5 (Billing Cycle) of the Special Covenants or Remarks to the Program Supplement for the 9<sup>th</sup> Street from "L" Street to the MID Lateral No. 4 and 9<sup>th</sup> Street from "B" Street to "D" Street project (STPL-5059(143)) and Section 11 (Billing Cycle) of the Special Covenants or Remarks to the Program Supplement for the Sylvan Avenue from McHenry Avenue to Coffee Road project (STPL-5059(123)) require submission of invoices for reimbursement of project costs every six months from the date the State Department of Transportation (Caltrans) encumbered the funds. In the event there are no costs to invoice, the City is required to submit to Caltrans a written explanation of the absence of project activity with a target billings amount and target billing date.

**Condition:** The funding for the 9<sup>th</sup> Street from "L" Street to the MID Lateral No. 4 and 9<sup>th</sup> Street from "B" Street to "D" Street project was originally encumbered by the State on March 12, 2007. The invoices submitted to the State for fiscal year 2008 activity were submitted on October 25, 2007 and June 9, 2008.

The funding for the Sylvan Avenue from McHenry Avenue to Coffee Road Project was originally encumbered by the State on January 17, 2006. The invoices submitted to the State for fiscal year 2008 activity were submitted on November 7, 2007 and June 17, 2008.

The invoices for these two projects are not being prepared at least every six months, and in the event there was not any activity during that period, a written explanation of the absence of project activity does not appear to have been submitted to the State.

**Effect:** The City is not in compliance with the provisions of the Program Supplement.

**Cause:** City staff finds it difficult to bill for reimbursements on a fixed schedule for several reasons, including the delay in receiving approval from the State of the project overhead rates that must be included in the invoices.

**Recommendation:** The City should file reimbursements timely, or provide to Caltrans written explanations for the lack of activity in compliance with the grant requirements.

**Management Response and Corrective Action Plan:**

The Finance and Public Works Departments have arranged to have a new staff position added during the 2008-2009 Fiscal Year that will oversee the claims filing process. This position will establish the procedures that will be followed in order to establish more timely and regular claims filing. Further, the Finance Department has created a calendar that sets specific timeframes for the filing of reimbursement claims based on grant requirements. A grant log is being created that will identify all open grants for which a reimbursement claim must be filed. Finally, training will be provided to all departments that apply for and manage grants in order to familiarize the program managers with the specific requirements of each grant.

**Program Contact:**

Nick Pinhey, Director of Public Works  
209-577-5205  
Wayne Padilla, Finance Director  
209-577-5369

**Current Year Status:** Implemented.

**2008-05      Submission of Timely Reimbursement Requests and Period of Availability**

**Program Affected:** U.S. Department of Transportation (Passed through California Department of Transportation) – Highway Planning and Construction (CFDA #20.205)

**Criteria:** Section 1 of the Contribution Agreement between the California Department of Transportation and the City for SHOPP TEA and Minor B funding for the Briggsmore and State Route 99 project requires the submission of invoices to the State once a month for reimbursement of eligible project expenses incurred by City. Invoices are to be submitted on City letterhead in the format required in Chapter 5, Accounting/Invoices, of the Local Assistance Procedures Manual. The City is responsible for all costs not reimbursable by the State or which exceed the State's contribution. The Contribution Agreement expired July 30, 2008.

**Condition:** The construction engineering and construction costs were incurred in July 2007 and January 2008, however, the City did not request reimbursement until February 3, 2009. Not only are invoices not being prepared on a monthly basis, the reimbursement was filed after the grant had expired. As a result, the State has not yet reimbursed the City.

**Effect:** The City is not in compliance with the provisions of the Contribution Agreement.

**Cause:** City staff relied on the directions that were being received from Caltrans regarding the frequency of billings that were required during the construction phase of this agreement.

**Recommendation:** The City should file reimbursements timely, or provide to Caltrans written explanations for the lack of activity in compliance with the grant requirements. In addition, the City needs to monitor the grant filing period so the funding will not be jeopardized in the future.

**Management Response and Corrective Action Plan:**

Staff in the City's Park, Recreation and Neighborhoods (PR&N) Department was given the task of project management for this project once it was ready to proceed into design stage. The City's Public Works Department initiated the process of applying for and securing the funds and eventually approving the paperwork for the Contribution Agreement between Caltrans and the City of Modesto.

In the transfer of project management duties from Public Works to PR&N and during the design and construction phases, staff from Parks, Recreation and Neighborhoods was in constant communication with representatives from Caltrans regarding the funding and invoicing requirements associated with the Agreement. PR&N staff followed Caltrans' verbal and email directions in navigating the project from design to construction. Caltrans staff made specific mention of the unique nature of this project's funding but assured PR&N staff that it was proceeding appropriately and that invoicing only needed to be complete within the specified timeframe after project completion. Since this project also has a three-year plant establishment and maintenance period, project completion and close out could not occur until three years after actual construction was finished.

This design phase of this project was originally invoiced in August 2007 while the construction portion of the project was invoiced at the end of the construction period as directed verbally and by email from Caltrans' staff and as is standard practice for most grants that staff from Parks, Recreation and Neighborhoods handle. Due to the limited staff available to generate invoices to the State, invoicing at the end of construction often is the only option available.

In the future Parks, Recreation and Neighborhoods Department staff will review contract documents to verify the invoice schedule and will then set up a calendar indicating the invoicing schedule to follow and will coordinate with the City Finance Department the duties of issuing invoices to the State for reimbursement.

**Program Contact:**

Julie Hannon, Acting Director  
Park, Recreation and Neighborhoods Dept.  
209-577-5417

**Current Year Status:** Implemented.

**2008-06      Federal Reimbursement Ratio**

**Program Affected:** U.S. Department of Transportation Passed through California Department of Transportation) – Highway Planning and Construction (CFDA #20.205)

**Criteria:** The City should request federal reimbursement from the State based on the most current version of the Authorization to Proceed (E-76) report or Finance Letter from the California Department of Transportation.

**Condition:** The Finance Letter for Briggsmore & State Route 99 project dated February 22, 2007 showed that the reimbursement ratio of the federal portion of project construction costs were 95.21%, however the City's invoice to the State for project construction costs used a reimbursement ratio of 95 - 42%.

**Effect:** During fiscal year 2008, the City requested reimbursement for project construction costs in the amount of \$421,507, however the reimbursement should have used the reimbursement ratio of 95.21% which would have resulted in an invoice of \$420,579. Therefore, we question the costs of \$927. Although the questioned costs are not significant, the City continued to use the incorrect reimbursement ratio for costs subsequent to June 30, 2008, therefore future project costs have been requested in excess of the reimbursement allowed.

**Cause:** On the very first reimbursement request that was filed, City staff miscalculated the reimbursement ratio for the construction phase of the project.

**Recommendation:** The City should ensure that the reimbursement ratio used on invoices to the State correspond with the Finance Letter or E-76. In addition, the City should work with the State to determine whether the costs incurred were allowable under the grant agreement, or if they need to be corrected on a future reimbursement request.

**Management Response and Corrective Action Plan:**

This audit finding shows a grant claim was filed using an incorrect percentage for the share of federal costs. This .21% difference resulted in an overbilling of \$1,475 of a \$1.1 million grant. We were informed during the audit that this was immaterial.

This rate was used in one billing to Caltrans. No payment has been received as of the date of this report. The City has the opportunity to correct the error on the next progress billing. Therefore, no overpayment will occur by the end of the project.

This project was paid for from three separate grants and one local match amount. Each grant had separate requirements for grant % of funding but one local match amount.

In the future, all grants having multiple financing sources will be documented before a reimbursement claim is filed to confirm the appropriate share of expense that applies to each funding source.

**Program Contact:**

Wayne Padilla, Finance Director  
209-577-5369

**Current Year Status:** Implemented.

**2008-07**      **Payroll Certifications**

**Program Affected:** U.S. Department of Transportation Federal Transit Agency – Federal Transit Cluster (CFDA #20.500)

**Criteria:** Circular A-87 section 11h(3) required where employees are expected to work solely on a single Federal award of cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications are to be prepared at least semi-annually and signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

**Condition:** We selected two employees for payroll testing and noted that they worked for the Fleet Department and their payroll was charged solely to the program for fiscal year 2008. The City has not prepared the certification as required by the Circular above.

**Effect:** The City has not prepared the required certification and is out of compliance with Circular A-87.

**Cause:** City staff was not aware of this requirement, which was also not being enforced by the oversight agency.

**Recommendation:** The City should complete the required certification and review other Federal award programs in which personnel are fully allocated to the programs to determine whether certifications are necessary.

**Management Response and Corrective Action Plan:**

The FTA does not require the City to submit the payroll certification to the FTA. However, the FTA does require the City to follow the cost principles set forth in the Circular A-87, which includes a certification for employees who work solely on a single Federal award or cost objective. A certification form has been created by the City and will be completed and signed by a supervisory official having first hand knowledge of the work performed by the individual on a semi-annual basis. This certification will be filed by the City.

**Program Contact:**

Nick Pinhey, Public Works Director  
209-577-5205

**Current Year Status:** Implemented.