

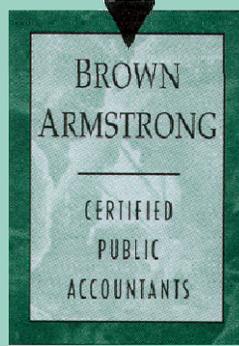
CITY OF MODESTO
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2010

**CITY OF MODESTO
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2010**

TABLE OF CONTENTS

	<u>Page</u>
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	3
Report on Supplementary Information – Schedule of Expenditures of Federal Awards	5
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	9
Schedule of Findings and Questioned Costs	10
Section I – Summary of Auditor’s Results	10
Section II – Financial Statement Findings	11
Section III – Federal Award Findings and Questioned Costs	12
Section IV – Status of Prior Year Finding and Questioned Costs	13

Peter C. Brown, CPA
Burton H. Armstrong, CPA, MST
Andrew J. Paulden, CPA
Steven R. Starbuck, CPA
Chris M. Thornburgh, CPA
Eric H. Xin, CPA, MBA
Richard L. Halle, CPA, MST
Aileen K. Keeter, CPA



■ **Main Office**
4200 Truxtun Ave., Suite 300
Bakersfield, California 93309
Tel 661.324.4971 Fax 661.324.4997
e-mail: info@bacpas.com

■ 560 Central Avenue
Shafter, California 93263
Tel 661.746.2145 Fax 661.746.1218

■ 8365 N. Fresno Street, Suite 440
Fresno, California 93720
Tel 559.476.3592 Fax 559.476.3593

**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, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 30, 2010. 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.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, see Findings 2010-01 through 2010-02. 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.

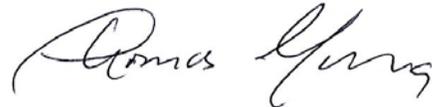
Compliance and Other Matters

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City'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's response and, accordingly, we express no opinion on it.

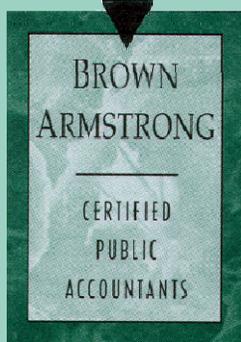
This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in cursive script, appearing to read "Thomas Young".

Bakersfield, California
November 30, 2010

Peter C. Brown, CPA
Burton H. Armstrong, CPA, MST
Andrew J. Paulden, CPA
Steven R. Starbuck, CPA
Chris M. Thornburgh, CPA
Eric H. Xin, CPA, MBA
Richard L. Halle, CPA, MST
Aileen K. Keeter, CPA



■ **Main Office**
4200 Truxtun Ave., Suite 300
Bakersfield, California 93309
Tel 661.324.4971 Fax 661.324.4997
e-mail: info@bacpas.com

■ 560 Central Avenue
Shafter, California 93263
Tel 661.746.2145 Fax 661.746.1218

■ 8365 N. Fresno Street, Suite 440
Fresno, California 93720
Tel 559.476.3592 Fax 559.476.3593

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON 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 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, 2010. 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'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. 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 of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

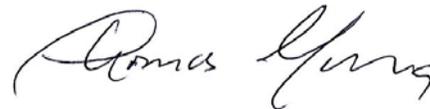
Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above.

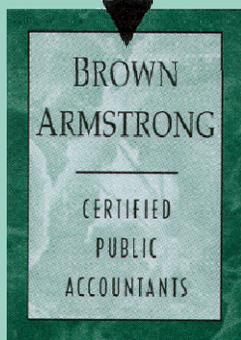
This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

A handwritten signature in cursive script, appearing to read "Ronald Young".

Bakersfield, California
November 30, 2010

Peter C. Brown, CPA
Burton H. Armstrong, CPA, MST
Andrew J. Paulden, CPA
Steven R. Starbuck, CPA
Chris M. Thornburgh, CPA
Eric H. Xin, CPA, MBA
Richard L. Halle, CPA, MST
Aileen K. Keeter, CPA



■ **Main Office**
4200 Truxtun Ave., Suite 300
Bakersfield, California 93309
Tel 661.324.4971 Fax 661.324.4997
e-mail: info@bacpas.com

■ 560 Central Avenue
Shafter, California 93263
Tel 661.746.2145 Fax 661.746.1218

■ 8365 N. Fresno Street, Suite 440
Fresno, California 93720
Tel 559.476.3592 Fax 559.476.3593

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, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 30, 2010.

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. 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 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
November 30, 2010

**CITY OF MODESTO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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	\$ 273,188
Community Development and Urban Development	B-09-MC-060002	14.218	820,397
Community Development and Urban Development	B-08-MC-060002	14.218	1,212,382
Community Development and Urban Development	B-05-MC-060002	14.218	74,957
Community Development and Urban Development - NSP	B-08-MN-060004	14.218	5,457,214
ARRA- Community Development and Urban Development	S-09-MY-060002	14.218	231,312
ARRA- Community Development and Urban Development	B-09-MY-060002	14.218	<u>109,422</u>
Program Subtotal			<u>8,178,872</u>
Department of Housing and Urban Development			
Emergency Shelter Grants Program	S-09-MC-060002	14.231	99,006
Emergency Shelter Grants Program	S-08-MC-060002	14.231	<u>3,850</u>
Program Subtotal			<u>102,856</u>
Department of Housing and Urban Development			
HOME Investment Partnership Grant	M-03-MC-060207	14.239	197,236
HOME Investment Partnership Grant	M-07-MC-060207	14.239	304,985
HOME Investment Partnership Grant	M-08-MC-060207	14.239	49,031
HOME Investment Partnership Grant	M-09-MC-060207	14.239	<u>157,945</u>
Program Subtotal			<u>709,197</u>
Department of Housing and Urban Development			
ARRA- Neighborhood Stabilization Program	B-09-LN-CA-0053	14.256	* <u>2,109,105</u>
United States Department of Justice			
ARRA- COPS Technology Grant	2009-RJ-WX-0022	16.710	* <u>867,321</u>
United States Department of Justice			
2007 Edward Byrne Memorial Justice Assistance Grant	2007-DJ-BX-0598	16.738	* 142,462
2008 Edward Byrne Memorial Justice Assistance Grant	2008-DJ-BX-0503	16.738	* 5,754
County JAG DED 09/10	2009-DJ-BX-0232	16.738	* 150,960
2009 Edward Byrne Memorial Justice Assistance Grant	2009-DJ-BX-0232	16.738	* 136,682
2008 Edward Byrne Memorial Justice Assistance Grant	2008-DJ-BX-0503	16.738	* 7,471
ARRA- 2009 Edward Byrne Memorial Justice Assistance Grant	2009-SB-B9-0405	16.804	* <u>272,747</u>
Program Subtotal			<u>716,076</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, 2010**

Grantor Agency and Award Title	Identifying Pass-Through Grant Number	Federal Catalog Number	Program Expenditures
United States Department of Transportation			
Airport Runway Safety	3-06-0153-32	20.106	16,076
ARFF Vehicle	3-06-0153-32	20.106	277
Airport Apron Rehab	3-06-0153-32	20.106	17,653
Planning Studies	3-06-0153-33	20.106	141,894
Airport Runway Safety	3-06-0153-34	20.106	145,881
Wind Cones	3-06-0153-34	20.106	29,339
Airport Apron Rehab	3-06-0153-34	20.106	31,192
Security Fence	3-06-0153-34	20.106	3,077
Tree Obstruction Removal	3-06-0153-34	20.106	1,708
NW Apron	3-06-0153-34	20.106	9,777
Program Subtotal			396,874
United States Department of Transportation (Passed through California Department of Transportation)			
State Route 219	CML-5059(156)	20.205 *	278,001
Virginia Corridor - Phase V	RPSTPLE-5059(090)	20.205 *	115,958
2010 Pavement Condition Survey	STPL-162	20.205 *	661
Sylvan Ave - Coffee/Oakdale Pvmnt Rehab	STPL-163	20.205 *	8,137
Oakdale Rd - Scenic/Sylvan Pvmnt Rehab	STPL-164	20.205 *	6,237
Rideshare Program	CML-151	20.205 *	19,884
Roundabouts Hillglen	CML-5059(153)	20.205 *	152,517
Lime Green School Zone Signs	HSIPL-155	20.205 *	6,247
N/B McHenry to E/B Briggsmore	CML-5059(168)	20.205 *	53,340
E/B Briggsmore to S/B McHenry	CML-5059(167)	20.205 *	55,048
Virginia Corridor - Phase V	HPLUL-5059(157)	20.205 *	86,495
Carpenter Road Bridge	BRLSZA-064	20.205 *	176,028
Pelandale CCTV/Fiber Optics	CML-118	20.205 *	108,339
Sylvan Ave from McHenry - Coffee	STPL-123	20.205 *	5,605
Synch Signs Outside Downtown 127	CML-127	20.205 *	3,307
Roundabouts (3)	CML-133	20.205 *	449
RT Carp/State and Sisk secondary	CML-134	20.205 *	193,049
Upgrade Signals	CML-136	20.205 *	715
T/S New Sisk/Vintage Fare and Claus Sylvan/Floyd/Lincoln	CML-138	20.205 *	83,668
Rideshare Program	CML-140	20.205 *	23,042
Claus Road A/C Overlay	STPL-142	20.205 *	50,468
SR 99 Pelandale Interchange	STPL-169	20.205 *	249,419
Roadway Resurfacing	STPL-145	20.205 *	729,517
Dale Road CCTV Cameras	CML-148	20.205 *	1,290
Right Turn Lanes - 4 Intersections	CML-149	20.205 *	251,417
New Traffic Signals (2008)	CML-150	20.205 *	61,805
Conant Ave - Curbs and Gutters	CML-152	20.205 *	41,900
State Route 219	10-STA-219-PM 1.85	20.205 *	2,204,404
Landscaping Briggsmore & SR99	SHOPP TEA	20.205 *	67,498
ARRA- CAPE and Slurry Seal	ESPL-5059(160)	20.205 *	758,046
ARRA- Overlay and ADA Curb Ramp	ESPL-5059(166)	20.205 *	188,975
Program Subtotal			5,981,466

* 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, 2010

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-Y310	20.500 *	9,506
Transit, Maintenance and Capital Purchases	CA-90-Y487	20.500 *	91,326
Transit, Maintenance and Capital Purchases	CA-90-Y568	20.500 *	10
Transit, Maintenance and Capital Purchases	CA-90-Y680	20.500 *	923,192
Transit Capital Investment Grant	CA-03-0562	20.500 *	664,299
Transit, Maintenance and Capital Purchases	CA-96-X077	20.507 *	584,298
Transit, Maintenance and Capital Purchases	CA-90-Y754	20.507 *	38,454
ARRA- Transit, Maintenance and Capital Purchases	CA-96-X073	20.507 *	<u>3,213,012</u>
Program Subtotal			<u>5,524,097</u>
United States Department of Transportation			
(Passed through State of California Office of Traffic Safety)			
Step Grant	PT1048	20.600	214,484
Sobriety Checkpoint Mini Grant 09/10	SC10262	20.600	7,039
Click it or Ticket Mini Grant	CT10262	20.600	17,496
Buckle Up Stanislaus	OP0902	20.600	41,889
Sobriety Checkpoint Mini Grant 08/09	SC09262	20.600	6,555
Avoid the 12 - City of Turlock Fiduciary	AL0967	20.601	17,008
Alcohol Beverage Control (ABC)	09G-LA20	20.601	<u>96,304</u>
Program Subtotal			<u>400,775</u>
United States Department of Public Health			
ARRA- Wells 283 and 236 Blending	ARR09FP25	66.468	<u>7,977</u>
Total Expenditures of Federal Awards			<u>\$ 24,994,616</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, 2010

NOTE 1 – REPORTING ENTITY

The Schedule of Expenditure 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, 2010**

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: Unqualified

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 OMB Circular A-133, Section .510(a)? Yes No

Identification of major programs:

<u>CFDA #(s)</u>	<u>Name of Federal Program or Cluster</u>
16.710	ARRA – COPS Technology Grant
16.738	Edward Byrne Memorial Justice Grants, including ARRA Grants
20.205	CalTrans Highway Planning Cluster, including ARRA Grants
20.500, 20.507	Federal Transit Cluster, including ARRA Grants
14.256	ARRA – Neighborhood Stabilization Program

The threshold for distinguishing type A & B programs was \$749,838.

Auditee qualified as low-risk auditee? Yes No

SECTION II – FINANCIAL STATEMENT FINDINGS

2010-01 – Water Use Tax

Condition

In accordance with Modesto Municipal Code Section 8-2.907 Water Use Tax, a tax is imposed upon every person in the City, other than a water corporation, for usage of water which is delivered through mains or pipes at a rate of 6% of all water charges. During our testing of Utility Billings, it was discovered that not all residences selected for testing were being charged the 6% City of Modesto tax on the water services. This tax should be assessed to all residences located within the City of Modesto city limits.

Recommendation

It appears that this problem is most apparent to those residences that existed and had water service prior to being annexed into the City. The Utility Billing staff relies on the Planning Department to relay the listing of those residences that are annexed into the City and need to have the Modesto tax charged. The effect of the condition is that the City of Modesto is losing additional tax revenue from all residences within city limits from not being charged the 6% tax for water services. We recommend that the City implement a policy or procedures that would ensure that all residences located in an annexed area are clearly communicated to the Utility Billing department. This would allow the department to verify that those residences are being charged the appropriate charges, including the City of Modesto tax for water services.

Management Response

Customer Services and IT performed an audit and found that 82 out of approximately 78,000 customer accounts were not being billed water tax since the system was set up in 2000. Out of these accounts, 6 were attributed to parcel annexations into the city limits. 76 accounts were primarily due to error when the accounts were originally set up. For the fiscal year 09/10, the revenue loss was approximately \$3,600. It is difficult to capture the exact fiscal impact for the prior years due to variances in rate increases, flat to metered rate changes, new homes, property vacancies, etc. Since inception, the estimated fiscal impact is less than \$30,000. Utility Billing has corrected this discrepancy and has implemented a procedure to assure this will not reoccur.

2010-02 – Depreciation Expense

Condition

We noted during our testing over capital assets and the related depreciation expense that current year depreciation was being overstated, causing an overstatement of accumulated depreciation and understating capital assets, thus decreasing net assets. In the current and previous year, when Construction in Progress (CIP) projects were completed and transferred to a depreciable asset base such as improvements, the depreciation expense for the year was being calculated based on the original start date of the project, and not on the date when the project was completed and transferred out of the CIP asset base into a depreciable asset base. The capital asset system was then calculating incorrectly depreciation to bring accumulated depreciation for that particular asset based on the straight-line method to where it should be had it been depreciated since the start date of the project rather than the transfer date. This lead to multiple years of depreciation being calculated and expensed in the current year, rather than just for the first year of depreciation.

Recommendation

We recommend that management communicate and train staff on the importance of properly setting up fixed assets in the asset management software, so that depreciation is calculated properly and started based on the transfer date for CIP projects rather than on start date of the project.

Management Response

City staff is working with the current staff to ensure written procedures are documented to ensure capitalizing a completed project to an improvement has step by step instructions to ensure any new staff transitioning into this process has clear instructions on how to properly capitalize an asset and ensure depreciation is calculated correctly.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit disclosed no findings and questioned costs required to be reported in accordance with Section .510(a) of OMB Circular A-133.

SECTION IV – STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

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.

Current Year Status

Implemented.

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.

Current Year Status

Implemented.

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.

Current Year Status

Implemented.

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 it 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

Current Year Status:

Implemented.