

CITY OF MODESTO, CALIFORNIA

Single Audit Reports

For the Fiscal Year Ended June 30, 2016



Certified
Public
Accountants

CITY OF MODESTO, CALIFORNIA
Single Audit Reports
For the Fiscal Year Ended June 30, 2016

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**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***

City Council of the City of Modesto
Modesto, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Modesto, California (City), as of and for the fiscal year ended June 30, 2016, 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 15, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 15, 2016



**Independent Auditor’s Report on Compliance for Each Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of
Expenditures of Federal Awards Required by the Uniform Guidance**

City Council of the City of Modesto
Modesto, California

Report on Compliance for Each Major Federal Program

We have audited the City of Modesto, California’s (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the fiscal year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and the Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

Basis for Qualified Opinion on CFDA No. 14.218 Community Development Block Grants/Entitlement Grants

As described in the accompanying schedule of findings and questioned costs, the City did not comply with the requirements regarding CFDA No. 14.218 Community Development Block Grants/Entitlement Grants as described in finding number 2016-001 for Reporting. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on CFDA 14.218 Community Development Block Grants/Entitlement Grants

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 CFDA No. 14.218 Community Development Block Grants/Entitlement Grants for the fiscal year ended June 30, 2016.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2016.

Other Matters

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

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 compliance 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 the Uniform Guidance, 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 was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

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 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2016-001 to be a material weakness.

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the fiscal year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 15, 2016, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macias Gini & O'Connell LLP

Walnut Creek, California
December 22, 2016

CITY OF MODESTO, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Federal Grantor

Direct or Pass-through Grantor Federal Program Title	CFDA Number	Grant/Project Number	Total Expenditures	Amount Passed to Subrecipients
U.S. Department of Housing and Urban Development				
<i>Direct</i>				
Community Development Block Grants/Entitlement Grants	14.218	B-11-MN-060004	\$ 3,554	\$ -
Community Development Block Grants/Entitlement Grants	14.218	B-10-MC-060002	95,429	-
Community Development Block Grants/Entitlement Grants	14.218	B-13-MC-060002	387,802	-
Community Development Block Grants/Entitlement Grants	14.218	B-14-MC-060002	988,175	164,170
Community Development Block Grants/Entitlement Grants	14.218	B-15-MC-060002	112,217	-
Total Community Development Block Grants/Entitlement Grants			<u>1,587,177</u>	<u>164,170</u>
Emergency Solutions Grant Program	14.231	E-11-MC-060002	3,275	3,275
Emergency Solutions Grant Program	14.231	E-12-MC-060002	13,698	13,272
Emergency Solutions Grant Program	14.231	E-14-MC-060002	25,671	25,671
Emergency Solutions Grant Program	14.231	E-15-MC-060002	110,646	106,408
Total Emergency Solutions Grant Program			<u>153,290</u>	<u>148,626</u>
Home Investment Partnerships Program	14.239	M-13-MC-060207	23,246	-
Home Investment Partnerships Program	14.239	M-14-MC-060207	26,904	-
Home Investment Partnerships Program	14.239	M-15-MC-060207	8,719	-
Total Home Investment Partnerships Program			<u>58,869</u>	<u>-</u>
ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	14.256	B-09-LN-CA-0053	976,396	-
Total U.S. Department of Housing and Urban Development			<u>2,775,732</u>	<u>312,796</u>
U.S. Department of Justice				
<i>Direct</i>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009 CK WX 0449	213,447	-
<i>Passed through Stanislaus County Sheriff Department</i>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0365	104,118	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-1184	116,640	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2015-DJ-BX-0912	112,491	-
Total Edward Byrne Memorial Justice Assistance Grant Program			<u>333,249</u>	<u>-</u>
Total U.S. Department of Justice			<u>546,696</u>	<u>-</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF MODESTO, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Federal Grantor

Direct or Pass-through Grantor Federal Program Title	CFDA Number	Grant/Project Number	Expenditures	Amount Passed to Subrecipients
U.S. Department of Transportation				
<i>Direct</i>				
Airport Improvement Program	20.106	3-06-0153-037	\$ 47,735	\$ -
Airport Improvement Program	20.106	3-06-0153-038	103,578	-
Airport Improvement Program	20.106	3-06-0153-039	1,651,086	-
Total Airport Improvement Program			1,802,399	-
Federal Transit - Capital Investment Grants	20.500	CA-03-0562	49,000	-
Federal Transit - Capital Investment Grants	20.500	CA-04-0198	4,559	-
Federal Transit - Capital Investment Grants	20.500	CA-90-Y870	53,274	-
Total Federal Transit - Capital Investment Grants			106,833	-
Federal Transit - Formula Grants	20.507	CA-90-Z064	74,005	-
Federal Transit - Formula Grants	20.507	CA-95-X248	62,658	-
Federal Transit - Formula Grants	20.507	CA-37-X101-2	48,597	20,082
Federal Transit - Formula Grants	20.507	CA-57-X027	38,444	38,444
Federal Transit - Formula Grants	20.507	CA-90-Z230	3,648,463	-
Federal Transit - Formula Grants	20.507	CA-95-X148-01	296,118	-
Total Federal Transit - Formula Grants			4,168,285	58,526
Total Federal Transit Cluster			4,275,118	58,526

Passed through the California Department of Transportation

Highway Planning and Construction	20.205	10-956907L	38,103	-
Highway Planning and Construction	20.205	10-957052L	113	-
Highway Planning and Construction	20.205	10-107724L	7,454	-
Highway Planning and Construction	20.205	10-957044L	321	-
Highway Planning and Construction	20.205	10-957053L	263	-
Highway Planning and Construction	20.205	10-957051L	39,511	-
Highway Planning and Construction	20.205	10-956975L	5,411	-
Highway Planning and Construction	20.205	10-956902I	5,873	-
Highway Planning and Construction	20.205	1000020580L-N	2,089	-
Highway Planning and Construction	20.205	10-00020601	47,792	-
Highway Planning and Construction	20.205	1000020602L-N	21,809	-
Highway Planning and Construction	20.205	1000020600	4,763	-
Highway Planning and Construction	20.205	10-12000064L	27,274	-
Highway Planning and Construction	20.205	1000020579L-N	31,760	-
Highway Planning and Construction	20.205	10-12000149L-N	8,547	-
Highway Planning and Construction	20.205	10-12000235L-N	219,970	-
Highway Planning and Construction	20.205	10-13000231L-N	43,228	-
Highway Planning and Construction	20.205	1015000187L-N	5,589	-
Highway Planning and Construction	20.205	10-2000236L-N	65,641	-
Highway Planning and Construction	20.205	10-2000046L	224,288	-
Highway Planning and Construction	20.205	10-12000274L-N	159,140	-
Highway Planning and Construction	20.205	1014000040L-N	6,050	-

CITY OF MODESTO, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Federal Grantor

Direct or Pass-through Grantor Federal Program Title	CFDA Number	Grant/Project Number	Expenditures	Amount Passed to Subrecipients
U.S. Department of Transportation (continued)				
<i>Passed through the California Department of Transportation (continued)</i>				
Highway Planning and Construction	20.205	10-12000275L-N	\$ 37,785	\$ -
Highway Planning and Construction	20.205	10-12000276L-N	34,611	-
Highway Planning and Construction	20.205	1013000085	12,044	-
Highway Planning and Construction	20.205	1014000109L-N	86,367	-
Highway Planning and Construction	20.205	1014000174L-N	229,721	-
Highway Planning and Construction	20.205	1015000084L-N	47,839	-
Highway Planning and Construction	20.205	1015000109L-N	11,989	-
Highway Planning and Construction	20.205	10-15000116	114,915	-
Highway Planning and Construction	20.205	10-15000095	106,232	-
Highway Planning and Construction	20.205	10-15000096	23,707	-
Highway Planning and Construction	20.205	10-14000082	13,937	-
Highway Planning and Construction	20.205	10-15000183	25,726	-
Highway Planning and Construction	20.205	10-15000182	3,102	-
Highway Planning and Construction	20.205	10-12000045L-O	27,837	-
Highway Planning and Construction	20.205	10-15000155	10,281	-
Highway Planning and Construction	20.205	10-16000068	2,833	-
Total Highway Planning and Construction			<u>1,753,915</u>	<u>-</u>
<i>Passed through the California Office of Traffic Safety</i>				
State and Community Highway Safety	20.600	AL1520	8,908	-
National Priority Safety Programs	20.616	PT1685	132,694	-
National Priority Safety Programs	20.616	PT1579	101,666	-
Total National Priority Safety Programs			<u>234,360</u>	<u>-</u>
Total Highway Safety Cluster			<u>243,268</u>	<u>-</u>
Total U.S. Department of Transportation			<u>8,074,700</u>	<u>58,526</u>
U.S. Environmental Protection Agency				
<i>Passed through the California State Water Resources Control Board</i>				
Capitalization Grants for Clean Water State Revolving Funds	66.458	C-06-5175-210	1,619,968	-
Total U.S. Environmental Protection Agency			<u>1,619,968</u>	<u>-</u>
U.S. Department of Homeland Security				
<i>Direct</i>				
Assistance to Firefighters Grant	97.044	EMW-2014-FR-00495	47,929	-
Total U.S. Department of Homeland Security			<u>47,929</u>	<u>-</u>
Total Expenditures of Federal Awards			<u>\$ 13,065,025</u>	<u>\$ 371,322</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF MODESTO, CALIFORNIA
Notes to Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2016

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards (Schedule) presents the activity of all federal award programs of the City of Modesto, California (City). The City reporting entity is defined in Note I.A. to the City's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included in the Schedule.

NOTE 2 – BASIS OF ACCOUNTING

Expenditures of federal awards reported in the Schedule are recognized when incurred, which is consistent with the modified accrual basis of accounting used by the City's governmental funds and the accrual basis of accounting used by the City's proprietary funds, which are described in Note I.C. to the City's basic financial statements.

NOTE 3 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the schedule agree to or can be reconciled with the amounts reported in the related financial reports.

NOTE 4 – INDIRECT COSTS

The City did not elect to use the 10% de minimis cost rate as covered in 2 CFR section 200.414 Indirect (F&A) costs.

CITY OF MODESTO, CALIFORNIA
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major federal programs:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified?	None reported
Type of auditor’s report issued on compliance for major federal programs:	Unmodified for all major federal programs except for CFDA No. 14.218 Community Development Block Grants/Entitlement Grants, which was qualified.
Any audit findings required to be reported in accordance with 2 CFR 200.516(a)?	Yes

Identification of major federal programs:

CFDA Number	Name of Major Federal Program or Cluster
14.218	Community Development Block Grants/Entitlement Grants
20.500, 20.507	Federal Transit Cluster

Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee	No

Section II – Financial Statement Findings

None noted.

CITY OF MODESTO, CALIFORNIA
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Section III – Federal Award Findings and Questioned Costs

Reference Number: 2016-001
Type of Finding: Material Weakness and Material Instance of Noncompliance
Category of Finding: Reporting
Federal Program Title: Community Development Blocks Grant/Entitlement Grants
Federal Catalog Number: 14.218
Federal Agency: U.S. Department of Housing and Urban Development
Federal Award Numbers and Years: B-15-MC-06-0002 / B-14-MC-06-0002 / B-13-MC-06-0002 /
B-10-MC-06-0002 / B-11-MN-06-0004

Criteria:

24 CFR sections 135.3(a)(1) and 135.90

Each recipient that administers covered public and Indian housing assistance, regardless of the amount expended, and each recipient that administers covered housing and community development assistance in excess of \$200,000 in a program year, must submit HUD 60002 information using the automated Section 3 Performance Evaluation and Registry (SPEARS) System .

Condition:

The City did not submit the required HUD 60002 information for fiscal years 2014, 2015 and 2016.

Cause:

Due to management changes, reorganization and staff shortage, the City fell behind on filing the HUD 60002. The City had turnover within the Community Development Department during the prior fiscal year and did not appropriately transfer all of the position responsibilities to the remaining personnel. In addition, HUD required the report to be filed in a new web-based system.

Effect:

Key line items containing critical information of Form HUD 60002 are not submitted to HUD on a timely basis.

Questioned Costs:

There are no questioned costs.

Recommendation:

We recommend that the City develop procedures to transition key duties to personnel in place to ensure that it meets all mandated reporting deadlines. In addition, the City should evaluate its internal control procedures on grant reporting requirements to ensure that procedures are properly documented and updated so that reporting requirements are completed during staff absence or turnover.

Management Response and Corrective Action:

The Community Development Division of the City is now staffed with personnel that are updating procedures to transition key duties to personnel in place to ensure that it meets all mandated reporting deadlines. These policies and procedures will be completed no later than June 2017 in advance of the December 15, 2017 (next HUD 60002 electronic submission deadline). In the interim, the division Environmental Review Specialist is currently entering all Section 3 data for FY 2014, 2015, and 2016 using the automated Section 3 Performance Evaluation and Registry (SPEARS) System to be completed within the next 90 days. In addition, the newly hired Housing & Urban Development Supervisor is reviewing the internal control procedures on grant reporting requirements to ensure that procedures are properly documented and updated at least once per fiscal year, so that reporting requirements are completed during staff absence and/or turnover.

CITY OF MODESTO, CALIFORNIA
Status of Prior Year Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Reference

Number: 2015-001

Type of Finding: **Material Weakness – Pollution Remediation Obligations**

Condition: The City had not previously presented a liability in its financial statements for the net recoveries it had collected over the years to pay for the remediation and legal costs incurred in pursuit of mitigating damages from the manufacturers of perchloroethylene, or PCE. In prior years, it was the City's practice to present any payments made from the collection of net recoveries as a special item in its financial statements.

Cause: The City was not fully aware of the requirements of GASB Statement No. 49.

Effect: This condition resulted in an audit adjustment to record the pollution remediation liability and decrease the beginning net position of the Water Fund by \$9,988,781, the Sewer Fund by \$10,914,776, and the business-type activities by \$20,903,557.

Recommendation: The City should account for subsequent payments made from the net recoveries it has collected as a reduction of the newly-created pollution remediation liability in accordance with GASB Statement No. 49.

Current Year

Status: Corrected.

CITY OF MODESTO, CALIFORNIA
Status of Prior Year Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Reference

Number: 2015-002

Type of Finding: **Material Weakness – Deferred Loans**

Condition: The City presented unavailable revenue related to its deferred loans as unearned revenue (a liability) in the Housing and Community Development Fund and governmental activities financial statements.

Cause: The City was not fully aware of the requirements of GASB Statement No. 65.

Effect: This condition resulted in an audit adjustment to reclassify the unavailable revenue related to deferred loans from unearned revenue to unavailable revenue (a component of deferred inflows of resources) in the City's Housing and Community Development Fund. Accordingly, this reclassification did not have an impact on the Housing and Community Development Fund's beginning fund balance. However, in the government-wide financial statements, this adjustment increased the beginning net position of the governmental activities by \$28,677,805 to recognize the revenue associated with prior years.

Recommendation: The City should analyze the long-term assets of its governmental funds and for any related revenues that do not meet the City's availability criteria, such amounts should be presented as unavailable revenue as a component of deferred inflows of resources in the governmental funds financial statements. The unavailable revenue should be recognized as revenue in the government-wide financial statements in accordance with GASB Statement No. 65.

Current Year

Status: Corrected.

CITY OF MODESTO, CALIFORNIA
Status of Prior Year Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Reference

Number: 2015-003

Type of Finding: **Material Weakness – Gas Taxes**

Condition: The City was presenting gas tax revenue as unearned revenue in its Special Gas Tax Street Improvement Fund (other governmental fund) and governmental activities financial statements.

Cause: The City was not fully aware of the requirements of GASB Statement No. 33.

Effect: This condition resulted in an audit adjustment to eliminate the unearned revenue and increase the beginning fund balance of the Special Gas Tax Street Improvement Fund and the beginning net position of the governmental activities by \$12,575,507.

Recommendation: The City should account for the receipt of gas taxes and other similar government-mandated nonexchange transactions as revenue when received in accordance with GASB Statement No. 33.

Current Year

Status: Corrected.

Reference

Number: 2015-004

Type of Finding: **Material Weakness – Reimbursement Agreement**

Condition: The City had not previously presented a receivable or a payable for a reimbursement agreement between the City and Successor Agency (Private-Purpose Trust Fund) associated with the obligations for the repayment of the 2008 Lease Revenue Bonds. In prior years, payments made on the reimbursement agreement were accounted for in operations.

Cause: The City was not fully aware of generally accepted accounting principles.

Effect: This condition resulted in an audit adjustment to record the receivable in the governmental activities and the payable in the Successor Agency and increase and decrease, respectively, net position by \$17,247,750.

Recommendation: The City should account for subsequent payments made from the Successor Agency to the City as a reduction of the newly-created receivable and payable in accordance with generally accepted accounting principles.

Current Year

Status: Corrected.

CITY OF MODESTO, CALIFORNIA
Status of Prior Year Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Reference

Number: 2015-005

Type of Finding: **Material Weakness – Debt Refunding**

Condition: During fiscal year 2014, an interest payment on debt being refunded was included in the refunding transaction as the refunding occurred prior to the date the interest was due, and the City incorrectly accounted for that amount titled “bond refunding contribution” as a deferred inflow of resources. In addition, the City accounted for the underwriters’ discount as a bond discount.

Cause: The City was not fully aware of the requirements of GASB Statement No. 65.

Effect: This condition resulted in an audit adjustment to eliminate the “bond refunding contribution” and bond discount and increase the beginning net position of the Water Fund and business-type activities by \$4,783,179.

Recommendation: The City should account for debt refunding transactions in accordance with GASB Statement No. 65. Specifically, the difference between the reacquisition price and the net carrying amount of the old debt should be reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Current Year

Status: Corrected.

Reference

Number: 2015-006

Type of Finding: **Material Weakness – Governmental Fund Long-Term Liability**

Condition: The City reported the unfunded portion of loans approved by the City to fund third parties in its Successor Redevelopment Housing Agency Fund (other governmental fund) that were not due and payable at fiscal year-end.

Cause: The City was not fully aware of the requirements of GASB Interpretation No. 6.

Effect: This condition resulted in an audit adjustment to eliminate the unfunded portion of the approved loans payable and increase the beginning fund balance of the Successor Redevelopment Housing Agency Fund by \$575,000.

Recommendation: The City should only report governmental fund liabilities that are normally due and payable in full when incurred in accordance with generally accepted accounting principles.

Current Year

Status: Corrected.

CITY OF MODESTO, CALIFORNIA
Status of Prior Year Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Reference Number: 2015-007

Type of Finding: Material Weakness – Other Prior Period Adjustments

Condition: During fiscal year 2015, the City identified a number of errors in its June 30, 2014 compensated absences, accounts payable, receivables, and property held for resale balances.

Cause: The compensated absences error was due to a miscalculation; the accounts payable and receivables errors were due to improper cutoff; and the property held for resale errors were the result of the accounting department not being informed of the sale of those properties.

Effect: These conditions resulted in the City adjusting the beginning net position/fund balances of its opinion units/funds as follows:

Opinion Units	Compensated Absences	Accounts Payable	Receivables	Property Held for Resale
Governmental activities	\$ 2,330,638	\$ (915,984)	\$ 34,045	\$ (784,000)
Business-type activities	-	-	26,037	(630,000)
General Fund	-	(111,616)	-	-
Housing and Community Development Fund	-	(805,437)	-	-
Capital Grants Fund	-	1,069	-	-
Other governmental funds	-	-	34,045	(784,000)
Bus Fund	-	-	26,037	-
Other enterprise funds	-	-	-	(630,000)
Internal service funds	2,330,638	-	-	-

Recommendation: The City should implement procedures to ensure that all transactions are recorded in the proper period at fiscal year-end. Such procedures should include timely communication between project managers and the accounting department related to the sale of property held for resale. Financial information should be reviewed at year-end for completeness and reasonableness of account balances. Immaterial errors detected in a current period that relate to a prior period may be reported as current year activity.

Current Year Status: Corrected.

CITY OF MODESTO, CALIFORNIA
Status of Prior Year Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Reference

Number: 2015-008

Type of Finding: Significant Deficiency – Cash Flows Statements

Condition: The City was not properly reporting many of the cash receipts and payments, as well as noncash transactions, made during the year in its cash flows statements. The City was reporting items such as gains and losses and prior period adjustments at the same amounts reported in its operating statements, which are prepared on the accrual basis of accounting.

Effect: This condition resulted in a significant number of revisions to the City's cash flows statements in order to present them in accordance with GASB requirements.

Recommendation: While using a tool, such as an Excel workbook, is very beneficial to preparing cash flow statements, the City should provide additional training to staff on the preparation of cash flows statements, including how to convert accrual based balances to cash receipts and disbursements, in order to present cash flows statements in accordance with generally accepted accounting principles.

Current Year

Status: Corrected.

CITY OF MODESTO, CALIFORNIA
Status of Prior Year Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2016

Reference Number: 2015-009

Type of Finding: **Material Weakness and Material Instance of Noncompliance - Reporting**

Program Identification: **Home Investment Partnerships Program (14.239)**

Condition: The City did not submit the required HUD 60002 information.

Cause: Due to management changes, reorganization and staff shortage, the City fell behind on filing the HUD 60002. In addition, HUD required the report to be filed in a new web-based system.

Effect: Key line items containing critical information of Form HUD 60002 are not submitted to HUD on a timely basis.

Recommendation: We recommend that the City develop controls and procedures to ensure that required reports are submitted when due.

Current Year Status: In progress. Performance Evaluation and Registry (SPEARS) System Section 3 data input will be completed within the next 90 days (March 24, 2017)

Reference Number: 2015-010

Type of Finding: **Material Weakness and Material Instance of Noncompliance – Special Test and Provisions**

Program Identification: **Home Investment Partnerships Program (14.239)**

Condition: The City did not perform housing quality inspections for the fiscal year ended June 30, 2015.

Cause: Due to management changes and reorganization, staff did not perform inspections.

Effect: Property standards might not be met and/or needed repairs might not be completed timely.

Recommendation: We recommend that the City develop controls and procedures to identify those units on which housing quality inspections are due and to ensure that the required inspections of units are performed as outlined above.

Current Year Status: In progress. The controls and procedures will be completed no later than June 2017 in advance of the next HUD 60002 electronic submission deadline.