

CITY OF MODESTO

SINGLE AUDIT REPORT

**FOR THE YEAR ENDED
JUNE 30, 2018**

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the 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, 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, 2018, 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 14, 2018.

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

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
December 14, 2018



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the 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 (the 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 year ended June 30, 2018. The City's major federal programs are identified in the summary of auditors' 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.

Auditors' 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 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.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2018-001 through 2018-003. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's 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 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, material weaknesses may exist that have not been identified.

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 year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated December 14, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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.

Purpose of Report

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.

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
December 14, 2018

**CITY OF MODESTO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA No.	Grant Number	Pass- Through to Sub- recipients	Federal Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Direct Programs				
Community Development Block Grants (CDBG)/Entitlement Program	14.218	B-11-MN-060004	\$ -	\$ 990
Community Development Block Grants (CDBG)/Entitlement Program	14.218	B-14-MC-060002	-	175,620
Community Development Block Grants (CDBG)/Entitlement Program	14.218	B-15-MC-060002	-	641,411
Community Development Block Grants (CDBG)/Entitlement Program	14.218	B-16-MC-060002	-	11,412
Community Development Block Grants (CDBG)/Entitlement Program	14.218	B-17-MC-060002	<u>203,642</u>	<u>1,424,360</u>
Total Community Development Block Grants/Entitlement Program			<u>203,642</u>	<u>2,253,793</u>
Emergency Solutions Grant Program	14.231	E-16-MC-060002	-	13,258
Emergency Solutions Grant Program	14.231	E-17-MC-060002	<u>134,406</u>	<u>168,471</u>
Total Emergency Solutions Grant Program			<u>134,406</u>	<u>181,729</u>
Home Investment Partnerships Program	14.239	M-11-MC-060207	-	13,210
Home Investment Partnerships Program	14.239	M-12-MC-060207	-	44,115
Home Investment Partnerships Program	14.239	M-13-MC-060207	-	34,367
Home Investment Partnerships Program	14.239	M-15-MC-060207	-	13,172
Home Investment Partnerships Program	14.239	M-16-MC-060207	-	32,739
Home Investment Partnerships Program	14.239	M-17-MC-060207	<u>-</u>	<u>105,364</u>
Total Home Investment Partnerships Program			<u>-</u>	<u>242,967</u>
ARRA - Neighborhood Stabilization Program (Recovery Act Funded)	14.256	B-09-LN-CA-0053	-	45,521
Homeless Management Information Systems Technical Assistance	14.261	CA1080L9T101606	-	131,365
Homeless Management Information Systems Technical Assistance	14.261	CA1080L9T101707	<u>-</u>	<u>17,559</u>
Total Homeless Management Information Systems Technical Assistance			<u>-</u>	<u>148,924</u>
<i>TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</i>			<u>338,048</u>	<u>2,872,934</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Direct Programs				
Public Safety Partnership and Community Policing Grants	16.710	2016ULWX0021	<u>-</u>	<u>379,151</u>
<i>TOTAL U.S. DEPARTMENT OF JUSTICE</i>			<u>-</u>	<u>379,151</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF MODESTO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA No.	Grant Number	Pass- Through to Sub- recipients	Federal Expenditures
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
Direct Programs				
Airport Improvement Program	20.106	3-06-0153-039	-	131,561
Airport Improvement Program	20.106	3-06-0153-040	-	34,102
Airport Improvement Program	20.106	3-06-0153-041	-	114,065
Total Airport Improvement Program			<u>-</u>	<u>279,728</u>
Federal Transit - Capital Investment Grants	20.500	CA-04-0198	-	751,736
Federal Transit - Capital Investment Grants	20.500	CA-90-Y870	150,000	150,000
Total Federal Transit - Capital Investment Grants			<u>150,000</u>	<u>901,736</u>
Federal Transit - Formula Grants	20.507	CA-2017-010-00	-	3,351,933
Federal Transit - Formula Grants	20.507	CA-2017-157-00	1,005,548	1,005,548
Federal Transit - Formula Grants	20.507	CA-95-X174	326,943	326,943
Federal Transit - Formula Grants	20.507	CA-95-X248	-	245,315
Federal Transit - Formula Grants	20.507	CA-90-Z230	370,636	576,051
Federal Transit - Formula Grants	20.507	CA-90-Z064	90,283	344,843
Federal Transit - Formula Grants	20.507	CA-90-Y754	-	117,391
Total Federal Transit - Formula Grants			<u>1,793,410</u>	<u>5,968,024</u>
Total Federal Transit Cluster			<u>1,943,410</u>	<u>6,869,760</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF MODESTO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA No.	Grant Number	Pass- Through to Sub- recipients	Federal Expenditures
Passed through the California Department of Transportation				
Highway Planning and Construction	20.205	CML-5059(218)	-	41,837
Highway Planning and Construction	20.205	BRLS-5938(167)	-	12,977
Highway Planning and Construction	20.205	CML-5059(184)	-	5,824
Highway Planning and Construction	20.205	CML-5059(186)	-	4,632
Highway Planning and Construction	20.205	CML-5059(187)	-	39,242
Highway Planning and Construction	20.205	CML-5059(185)	-	3,808
Highway Planning and Construction	20.205	CML-5059(226)	-	30,386
Highway Planning and Construction	20.205	CML-5059(183)	-	60,172
Highway Planning and Construction	20.205	CML-5059(216)	-	11,906
Highway Planning and Construction	20.205	STPL-5059(195)	-	45,882
Highway Planning and Construction	20.205	CML-5059(190)	-	827,421
Highway Planning and Construction	20.205	CML-5059(191)	-	50,402
Highway Planning and Construction	20.205	CML-5059(197)	-	23,702
Highway Planning and Construction	20.205	CML-5059(203)	-	15,520
Highway Planning and Construction	20.205	CML-5059(198)	-	27,253
Highway Planning and Construction	20.205	CML-5059(199)	-	46,121
Highway Planning and Construction	20.205	CML-5059(200)	-	4,845
Highway Planning and Construction	20.205	STPL-5059(205)	-	22,649
Highway Planning and Construction	20.205	CML-5059(207)	-	373,158
Highway Planning and Construction	20.205	CML-5059(210)	-	4,523
Highway Planning and Construction	20.205	STPL-5059(211)	-	306
Highway Planning and Construction	20.205	STPL-5059(208)	-	26,832
Highway Planning and Construction	20.205	ATPL-5059(209)	-	542,746
Highway Planning and Construction	20.205	HSIPL-5059(204)	-	2,522
Highway Planning and Construction	20.205	STPL-5059(215)	-	682,791
Highway Planning and Construction	20.205	CML-5059(214)	-	4,167
Highway Planning and Construction	20.205	CML-5059(212)	-	9,623
Highway Planning and Construction	20.205	CML-5059(217)	-	4,862
Highway Planning and Construction	20.205	CML-5059(219)	-	110,372
Highway Planning and Construction	20.205	CML-5059(220)	-	87,481
Highway Planning and Construction	20.205	CML-5059(221)	-	5,110
Highway Planning and Construction	20.205	CML-5059(222)	-	16,946
Highway Planning and Construction	20.205	CML-5059(223)	-	14,726
Highway Planning and Construction	20.205	CML-5059(227)	-	13,004
Total Highway Planning and Construction			-	<u>3,173,748</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF MODESTO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA No.	Grant Number	Pass- Through to Sub- recipients	Federal Expenditures
Passed through the California Office of Traffic Safety				
State and Community Highway Safety	20.600	PT1685	-	131,156
State and Community Highway Safety	20.600	PT1771	-	75,998
State and Community Highway Safety	20.600	PT1771	-	20,080
Total State and Community Highway Safety			-	<u>227,234</u>
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1685	-	176,882
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1771	-	70,426
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			-	<u>247,308</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			1,943,410	<u>10,797,778</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Direct Programs				
Staffing for Adequate Fire and Emergency Response	97.083	EMW-2015-FH-00410	-	887,855
Passed through California Office of Emergency Services (CalOES)				
Emergency Management Performance Grants (EMPG)	97.036	FEMA-4308-DR-CA	-	485,772
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			-	<u>1,373,627</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,281,458</u>	<u>\$ 15,423,490</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF MODESTO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents all the activity of all the federal award programs of the City of Modesto (the City) for the year ended June 30, 2018. The City reporting entity is defined in Note 1 to the City's basic financial statements. Federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included on the schedule.

NOTE 2 – BASIS OF ACCOUNTING & PRESENTATION

Consistent with the City's method of filing federal financial reports, the accompanying Schedule of Expenditures of Federal Awards is prepared using the accrual basis method of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S., *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within the City's financial statements.

NOTE 3 – RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related periodic federal financial reports.

NOTE 4 – CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA)

The CFDA numbers included in the accompanying Schedule of Expenditures of Federal Awards were determined based on the program name, review of the grant or contract information and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

NOTE 5 – PASS-THROUGH ENTITY IDENTIFYING NUMBERS

When Federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards show, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the City has either determined that no identifying number is assigned for the program or the City was unable to obtain an identifying number from the pass-through entity.

NOTE 6 – INDIRECT COST RATE LIMITATION

The City does not use the 10 percent de minimis indirect cost rate.

**CITY OF MODESTO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: Unmodified

Internal control over financial reporting:

- Material weakness identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X Yes _____ No

Noncompliance material to federal awards? _____ Yes X No

Type of auditors’ report issued on compliance for major Federal programs: Unmodified

Identification of major programs:

<u>CFDA Number:</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants/Entitlement Program
14.239	Home Investment Partnerships Program
20.205	Highway Planning and Construction
97.083	Staffing for Adequate Fire and Emergency Response

Dollar threshold used to distinguish Between Type A and Type B programs: \$750,000

Auditee qualified as a low-risk auditee? _____ Yes X No

CITY OF MODESTO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FOR THE YEAR ENDED JUNE 30, 2018

SECTION II – FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported in accordance with *Governmental Auditing Standards*.

SECTION III – FEDERAL AWARD FINDINGS

Reference Number:	2018-001
Type of Finding:	Significant Deficiency
Category of Finding:	Special Tests & Provisions - Wage Rate Requirements
Federal Program Title:	Highway Planning and Construction
Federal Catalog Number:	20.205
Federal Agency:	U.S. Department of Transportation
Federal Award Numbers and Years:	ATPL-5059(209)

Criteria:

Per U.S. Department of Labor Regulations at 29 CFR § 5.5(a)(3)(ii), each covered contractor and subcontractor must on a weekly basis, provide the contracting agency a copy of all payrolls for the preceding weekly payroll period, accompanied by a "Statement of Compliance," certifying compliance with applicable requirements.

Condition:

For one of the four projects we reviewed, we noted that one of the subcontractors did not submit the certified payroll reports prior to the date of testing. Furthermore, one contractor and one subcontractor did not submit their certified payroll reports within the required timeframe.

Cause:

The City did not have a review process in place to ensure that the required certified payroll reports were submitted for all projects and by all covered contractors and subcontractors.

Effect:

Continued noncompliance with federal guidelines can jeopardize future federal and state funding.

Questioned Costs:

There are no questioned costs.

Recommendation:

We recommend that the City develop a periodic review of all projects' certified payroll reports to ensure that all contractors and subcontractors are submitting the required reports within the required timeframe.

CITY OF MODESTO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FOR THE YEAR ENDED JUNE 30, 2018

Management Response and Corrective Action:

For all Construction Administration Division projects with federal funding, a scheduled report will be generated automatically from the City's Construction Management Software. This monthly report lists all the contract hours submitted by contractors and subcontractors. The assigned staff in Construction Administration Division will verify whether each of the contractor(s) and subcontractor(s) listed on this report has submitted the certified weekly payroll or a certified statement of non-performance. If neither has been submitted for the given period, an official City letter will be sent to each of the non-compliant contractor(s) and subcontractor(s) in the registered or certified mail. Progress payment deductions may be taken on a monthly basis from the prime contractor until the contractor(s) is/are in compliance.

Reference Number:	2018-002
Type of Finding:	Significant Deficiency
Category of Finding:	Procurement
Federal Program Title:	Community Development Block Grants/ Entitlement Program
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Federal Award Numbers and Years:	BC-17-MC-060002

Criteria:

Per 24 CFR § 200.320(c)(2)(i), when sealed bids are used the invitation for bids must be publicly advertised and bids must be solicited from an adequate number of known suppliers, providing them with sufficient response time prior to the date set for opening the bids.

Condition:

While performing audit procedures over the City's procurement process for rehabilitation projects, we noted that the City did not adequately advertise the bids for a sufficient amount of time before the date set for opening the bids.

Cause:

Although the projects did not reach a limit that would require the use of sealed bids, it was the City's practice to use sealed bids when procuring housing rehabilitation services from contractors. This caused confusion as to what procedures should be used.

Effect:

Continued noncompliance with federal guidelines can jeopardize future federal and state funding.

Questioned Costs:

There are no questioned costs.

Recommendation:

We recommend that the City update their current policies to match their current practices when soliciting for housing rehabilitation services.

CITY OF MODESTO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FOR THE YEAR ENDED JUNE 30, 2018

Management Response and Corrective Action:

Staff has updated the Housing and Urban Development Policies and Procedures to develop steps to ensure all procurements are conducted in a manner that promotes full and open competition and avoids any arbitrary action in the procurement process including ensuring contractors are given sufficient time to respond to solicitations. This policy aligns with the City of Modesto and HUD's procurement policies and has been reviewed by our Finance Department to ensure a uniform process. The policy reviewed and approved through Citizen Housing and Community Development Committee on June 14, 2018 and approved by City Council on July 10, 2018 by Resolution Number 2018-275.

Templates and checklists were created by the division and utilized throughout the procurement process to ensure that bids proposals submitted are posted within City guidelines, in a timely manner, and with enough time for contractors to respond.

Reference Number:	2018-003
Type of Finding:	Significant Deficiency
Category of Finding:	Subrecipient Monitoring
Federal Program Title:	Community Development Block Grants/ Entitlement Program
Federal Catalog Number:	14.218
Federal Agency:	U.S. Department of Housing and Urban Development
Federal Award Numbers and Years:	BC-17-MC-060002

Criteria:

Per 24 CFR § 200.331, when the City passes money through to subrecipients, the City must ensure that every subaward is clearly identified to the subrecipient as a subaward and includes certain information at the time of the subaward. Among other items, the City must include:

- Subrecipient name
- Subrecipient DUNS number
- Federal award identification number
- Federal award date
- Subaward period of performance
- Amount of federal funds obligated by the agreement
- Total amount of the federal fund
- Federal award project description
- Name of federal awarding agency, pass-through entity, and contact information for awarding official
- CFDA number and name
- Identification that the project is for R&D
- Indirect cost rate for the federal award

Condition:

While performing audit procedures over the City's subrecipient monitoring, we noted that the City did not include all of the required information at the time of the subaward as required by federal guidelines.

CITY OF MODESTO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
FOR THE YEAR ENDED JUNE 30, 2018

Cause:

The City has not updated its contracts/agreements between the City and its subrecipients to comply with the changes made to the single audit requirements by the implementation of the Uniform Guidance.

Effect:

Continued noncompliance with federal guidelines can jeopardize future federal and state funding.

Questioned Costs:

There are no questioned costs.

Recommendation:

We recommend that the City update their subrecipient contracts to include all of the requirements of 24 CFR 200.331.

Management Response and Corrective Action:

The City will work with the City Attorney's Office to update their subrecipient contracts to include all of the requirements of 24 CFR 200.331.



City of Modesto Finance Department
Accounting Division
P. O. Box 642
Modesto, CA 95353-0642

Corrective Action Plan

For the Fiscal Year Ended June 30, 2018

Reference Number: 2018-001
Type of Finding: Significant Deficiency
Category of Finding: Special Tests & Provisions – Wage Rate Requirements
Federal Program Title: Highway Planning and Constructions
Federal Catalog Number: 20.205
Federal Agency: U.S. Department of Transportation
Federal Award Numbers and Years: ATPL-5059(209)

The City recognizes the need to develop a periodic review of all projects' certified payroll reports to ensure that all contractors and subcontracts are submitting the required reports within the required timeframe.

Corrective Action Plan

For all Construction Administration Division projects with federal funding, a scheduled report will be generated automatically from the City's Construction Management Software. This monthly report lists all the contract hours submitted by contractors and subcontractors. The assigned staff in Construction Administration Division will verify whether each of the contractor and subcontractor listed on this report has submitted the certified weekly payroll or a certified statement of non-performance. If neither has been submitted for the given period, an official City letter will be sent to each of the non-compliant contractor(s) and subcontractor(s) in the registered or certified mail. Progress Payment deductions may be taken on a monthly basis from the prime contractor until the contractor(s) is/are in compliance. These reviews will provide a proposed a solution for approval effective immediately.

Contact

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City of Modesto Finance Department
Accounting Division
P. O. Box 642
Modesto, CA 95353-0642

Reference Number: 2018-002
Type of Finding: Significant Deficiency
Category of Finding: Procurement
Federal Program Title: Community Development Block Grants/Entitlement Program
Federal Catalog Number: 14.218
Federal Agency: U.S. Department of Housing and Urban Development
Federal Award Numbers and Years: BC-17-MC-060002

While the City's auditors performed various audit procedures related to the City's procurement process for rehabilitation projects, it was noted that the City did not adequately advertised the bids for a sufficient amount of time before the date set for opening the bids. It was recommended the City update their current policies to match their current practices when soliciting for housing rehabilitation services.

Corrective Action Plan

City staff has updated the Housing and Urban Development Policies and Procedures to develop steps to ensure all procurements are conducted in a manner that promotes full and open competition and avoids any arbitrary action in the procurement process including ensuring contractors are given sufficient time to respond to solicitations. This policy aligns with the City of Modesto and HUD's procurement policies and has been reviewed by our Finance Department to ensure a uniform process. The policy reviewed and approved through Citizen Housing and Community Development Committee on June 14, 2018 and approved by City Council on July 10, 2018 by Resolution Number 2018-275.

Templates and checklists were created by the division and utilized throughout the procurement process to ensure that bids proposals submitted are posted within City guidelines, in a timely manner, and with enough time for contractors to respond.

Contact

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City of Modesto Finance Department
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Reference Number: 2018-003
Type of Finding: Significant Deficiency
Category of Finding: Subrecipient Monitoring
Federal Program Title: Community Development Block Grants/Entitlement Program
Federal Catalog Number: 14.218
Federal Agency: U.S. Department of Housing and Urban Development
Federal Award Numbers and Years: BC-17-MC-060002

While the City's auditors performed their audit procedures over the City's subrecipient monitoring, it was noted that the City did not include all of the required information at the time of the subaward as required by the federal guidelines under 24 CFR 200.331. It was recommended the City update their subrecipient contracts to include all of the requirements of 24 CFR 200.331.

Corrective Action Plan

The City will work with the City Attorney's Office to update their subrecipient contracts to include all of the requirements of 24 CFR 200.331. These reviews will provide a proposed a solution for approval by February 1, 2019.

Contact

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Prior Year Findings and Questioned Cost

Reference Number:	2017-003
Type of Finding:	Significant Deficiency of Noncompliance – Subrecipient Monitoring and Procurement
Condition:	For one of two subrecipients reviewed, the City did not have the universal identifier and SAM requirements in accordance with 2 CFR 25.200. Additionally, the City did not retain documentation to indicate whether it collected the subrecipients' unique identifier prior to awarding funds in accordance with 2 CFR 25.205.
Cause:	The City did not have a process in place to ensure the required information is communicated and collected, nor did the City ensure its subrecipient maintain active SAM registration.
Effect:	The City is at risk for awarding federal funds to entities that have not properly registered with the SAM.
Recommendation:	We recommend that the City should review all federal statutes, regulations, and the terms and conditions of the federal award and determine whether or not policies and procedures exist and are operating effectively to ensure compliance with all requirements.
Current Year Status:	Corrected.



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Reference Number: 2017-004 and 2015-010

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

Condition: The City did not perform housing quality inspections for the fiscal years 2015, 2016, and 2017.

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: During the fiscal year, the City's Citizens Housing and Community Development Committee approved HOME policies and procedures, which were also subsequently approved by the City Council. These policies and procedures require the City to perform required on-site inspections of HOME-assisted properties periodically, consistent with the Criteria noted above. We recommend that the City continue to evaluate the effectiveness of its current internal control policies to ensure that the required inspections of units are performed as housing quality inspections are due.

Current Year Status: Corrected.