

City of Stockton

Stockton, California

Single Audit Report

For the year ended June 30, 2013

City of Stockton
Single Audit Report
For the fiscal year ended June 30, 2013

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

Independent Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of Stockton
Stockton, 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 Stockton, California (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 25, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We consider the deficiencies reported in our separately issued *Report on Internal Control Related Matters Identified in an Audit* to be significant deficiencies as items 2013-08, and 2013-09.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. 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. We consider the deficiencies reported in our separately issued *Report on Internal Control Related Matters Identified in an Audit* to be material weaknesses as items 2013-01, 2013-03, 2013-03, 2013-04, 2013-05, 2013-06 and 2013-07.

To the Honorable Mayor and Members of City Council
of the City of Stockton
Stockton, California
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's basic 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 that are required to be reported under *Government Auditing Standards*.

We have issued a separate *Report on Internal Control Related Matters Identified in an Audit* dated June 25, 2014, which is an integral part of our audits and should be read in conjunction with this report.

City's Response to Findings

The City's responses to the findings identified in our audit are 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.

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.

A handwritten signature in black ink that reads "Paul J. McGeady LLP". The signature is written in a cursive, slightly slanted style.

Walnut Creek, California
June 25, 2014



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**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133**

Independent Auditors' Report

To the Honorable Mayor and Members of City Council
of the City of Stockton
Stockton, California

Report on Compliance for Each Major Federal Program

We have audited the City of Stockton, California's (City) compliance with the types of compliance requirements described in the *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, 2013. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the 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, 2013. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item SA 2013-01.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items SA 2013-02, and SA 2013-03 to be significant deficiencies.

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

City's Response to Findings

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated June 25, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying

To the Honorable Mayor and Members of City Council
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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 SEFA is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Purpose of this 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Paul J. McGeady LLP". The signature is written in a cursive style with a large, stylized initial "P" and "M".

Walnut Creek, California
June 25, 2014

City of Stockton
Single Audit Report
Schedule of Expenditures of Federal Awards
For the fiscal year ended June 30, 2013

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
CDBG - Entitlement Grants Cluster			
<i>Direct Program:</i>			
Community Development Block Grants/Entitlement Grants	14.218	B-12-MC-060026	\$ 928,531
Community Development Block Grants/Entitlement Grants - Program Income	14.218	Program Income	666,036
ARRA - Community Development Block Grants/Entitlement Grants	14.218	B-09-MY-060026	662,336
Community Development Block Grants/Entitlement Grants - Loan Balances	14.218	Loan Balances	20,075,458
Neighborhood Stabilization Program - Loan Balances	14.218	Loan Balances	7,174,126
Neighborhood Stabilization Program	14.218	B-11-MN-06-0009	405,616
Neighborhood Stabilization Program - Program Income	14.218	Program Income	4,327,453
Total CDBG - Entitlement Grants Cluster			<u>34,239,556</u>
Emergency Shelter Grants Program	14.231	S-12-MC-060026	<u>308,234</u>
Home Investment Partnership Program	14.239	M-12-MC-060221	3,371,064
Home Investment Partnership Program - Loan Balances	14.239	Loan Balances	35,425,779
Home Investment Partnership Program - Program Income	14.239	Program Income	1,356,316
Subtotal of Home Investment Partnership Program Grants			<u>40,153,159</u>
ARRA - Homelessness Prevention & Rapid Re-Housing Program	14.257	S-09-MY-060026	<u>42,791</u>
Total U.S. Department of Housing and Urban Development			<u>74,743,740</u>
U.S. Department of Justice			
JAG Program Cluster			
<i>Direct Program:</i>			
Edward Byrne Memorial Justice Assistance Grant	16.738	2010-DJ-BX-1460	<u>22,355</u>
<i>Pass-Through San Joaquin County District Attorney's Office:</i>			
Edward Byrne Memorial Formula Grant Program	16.738	DC06-17-0390	66,041
Edward Byrne Memorial Formula Grant Program	16.738	2011-DJ-BX-3476	79,884
Edward Byrne Memorial Formula Grant Program	16.738	2011-DD-BX-0016	155,535
Edward Byrne Memorial Formula Grant Program	16.738	2012-DJ-BX-1104	264,451
Total JAG Program Cluster			<u>588,266</u>
Congressionally Recommended Awards	16.753	2009-D1-BX-0312	<u>198</u>
<i>Pass-Through State of California Office of Emergency Services</i>			
Violence Against Women Formula Grants	16.588	US11-01-8019	21,529
Violence Against Women Formula Grants	16.588	LE11-04-8019	113,085
Violence Against Women Formula Grants	16.588	LE12-05-8019	128,273
Subtotal Violence Against Women Formula Grants			<u>262,887</u>
Total U.S. Department of Justice			<u>851,351</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

City of Stockton
Single Audit Report
Schedule of Expenditures of Federal Awards, Continued
For the fiscal year ended June 30, 2013

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures
U.S. Department of Transportation			
<i>Pass-Through State of California Department of Transportation:</i>			
Highway Planning and Construction Grants			
Safe Routes to School - Montezuma Elementary School	20.205	SRTS-5008 (088)	320,174
Safe Routes to School - Pilot Program	20.205	SRTS-5008 (089)	104,205
Traffic Signal Controller Update and Retiming	20.205	CML-5008 (098)	42,668
McKinley Avenue Bridge	20.205	BRLO-5008 (099)	2,645
Bridge Maintenance	20.205	BPMP-5008(076)	2,949
ARRA (American Recovery & Reinvestment Act)			
Airport Way Streetscape Beautification Phase 2	20.205	ESPL-5008(092)	55,859
Airport Way at Oak, Park and Fremont	20.205	HSIPL-5008 (093)	601,233
El Dorado and MLK Traffic Signal Modification	20.205	CML-5008 (101)	8,683
Tam O'Shanter and Hammertown Project	20.205	CML-5008 (097)	3,571
Glacier Point Ansel Adams	20.205	HSIPL-5008 (102)	8,371
Fiber Optic Network Expansion	20.205	CML-5008(096)	13,174
Airport Way Beautification Phase 4	20.205	STPL-5008(112)	13,866
Hazelton/UPPR RR Crossing	20.205	STPLR-7500(185)	52,679
Safe Route > School Program Expansion	20.205	SRTSLNI-5008(121)	3,163
Industrial/McKinley/UPPR Xing	20.205	STPLR-7500(183)	209,792
Harrison Elem Safety Improvement	20.205	SRTSL-5008(119)	8,540
Pacific Ave Median Improvement	20.205	SPTCSPLL-5008(114)	699,730
Aurora Street/BNSF	20.205	STPLR-7500(157)	38,520
University/Miracle Mile Improvement	20.205	SPTCSPLL-5008(115)	528,796
2010-11 Street Overlay Project RSTP	20.205	STPL-5008(104)	207,155
Benjamin Holt Cumberland Traffic Signal	20.205	CML-5008(111)	54,337
Benjamin Holt/Inglewood Traffic Signal	20.205	CML-5008(110)	55,526
Bus Rapid Transit PHIII/Hammer Lane	20.205	CML-5008(106)	1,016,348
Davis Road/Wagner Heights Traffic Signal	20.205	CLM-5008(109)	36,757
Wilson Way Corridor Adaptive Traffic Control System	20.205	CML-5008(113)	128,325
Center Street/El Dorado Overpass	20.205	BLRLS-5008(103)	37,267
HSIP Radar Speed Feedback Signs	20.205	HSIPL-5008(108)	231,669
		NCPD-5008(059)-HPLUL-5008(081)-	
French CMP/Sperry Rd-PERF	20.205	DEM112L-5008(082)	3,048,040
2011-12 RSTP ST Overlay	20.205	STPL-5008(107)	1,397,425
Thornton Road Widening	20.205	STPL-5008(117)	2,710
Hammer Lane Phase III	20.205	STPL-5008(118)	2,994
Total Highway Planning and Construction Grants			<u>8,937,171</u>
<i>Pass-Through State of California Office of Traffic Safety:</i>			
State and Community Highway Safety Grants			
AVOID Grant	20.600	20579	86,737
DUI Enforcement and Awareness Program	20.600	20453	107,951
AVOID Grant	20.600	AL1345	75,639
STEP Grant	20.600	PT1349	78,231
Checkpoint Grant - UC Berkeley Research Center	20.600	SC13420	65,261
Distracted Driving	20.600	DD1328	33,179
Subtotal State and Community Highway Safety Grants			<u>446,998</u>
Total U.S. Department of Transportation			<u>9,384,169</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

City of Stockton
Single Audit Report
Schedule of Expenditures of Federal Awards, Continued
For the fiscal year ended June 30, 2013

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures
U.S. Department of Energy			
<i>Direct Program:</i>			
Energy Efficiency and Conservation Block Grant Program			
ARRA - Energy Efficiency and Block Grant	81.128	DE-EE0000886	<u>1,068,607</u>
Total U.S. Department of Energy			<u>1,068,607</u>
U.S. Department of Homeland Security			
<i>Pass-Through San Joaquin County Office of Emergency Services:</i>			
Homeland Security Grant Program			
Catastrophic Preparedness	97.067	2010-0085	20,374
Catastrophic Preparedness	97.067	2011-SS-0077	<u>6,811</u>
Total Homeland Security Grant Program			27,185
<i>Pass-Through Marine exchange of the San Francisco Bay Region:</i>			
FEMA Port Security Grant Program	97.056	2007-GB-T7-K274	<u>14,757</u>
Subtotal Marine Exchange of the San Francisco Bay Region			<u>14,757</u>
Total U.S. Department of Homeland Security			<u>41,942</u>
Total Expenditures of Federal Awards			<u><u>\$ 86,089,809</u></u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

City of Stockton
Single Audit Report
Notes to Schedule of Expenditures of Federal Awards
For the fiscal year ended June 30, 2013

Note 1 – Reporting Entity

The financial reporting entity consists of the primary government, City of Stockton (the “City”), organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The City Council acts as the governing body and is able to impose its will on the following organizations, establishing financial accountability:

- The Stockton Public Financing Authority
- Fiduciary Component Unit

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

Funds received under the various grant programs have been recorded within the special revenue and capital projects funds of the City. The City utilizes the modified accrual basis of accounting for the special revenue and capital projects funds. The accompanying SEFA is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the SEFA may differ from amounts presented in, or used in, the preparation of City’s basic financial statements.

Schedule of Expenditures of Federal Awards

The accompanying SEFA presents the activity of all federal financial assistance programs of the City. Federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through the State of California, the County of San Joaquin, and the City of Stockton is included in the Schedule. The SEFA was prepared only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

Note 3 – Subrecipients

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
14.218	Community Development Block Grants/Entitlement Grants	\$ 323,933
14.218	ARRA - Community Development Block Grants/Entitlement Grants	97,980
14.231	Emergency Shelter Grants Program	299,896
14.262	ARRA - Homelessness Prevention & Rapid Re-Housing Program	42,791

**City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs
For the fiscal year ended June 30, 2013**

Section I – Summary of Auditor’s Results

Financial Statements

Types of auditors’ report issued:

Internal control over financial reporting:	Unmodified
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes
Type of auditor’s report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in Accordance with section 510(a) of OMB Circular A-133	Yes

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster	Expenditures
14.218	Community Development Block Grants	\$ 34,239,556
14.239	HOME Investment Partnership Program	40,153,159
20.205	Highway Planning and Construction	8,937,171
	Total Expenditures of All Major Federal Programs	\$ 83,329,886
	Total Expenditures of Federal Awards	\$ 86,089,809
	Percentage of Total Expenditures of Federal Awards	96.79%

Dollar threshold used to distinguish between type A and type B program	\$1,378,100
Auditee qualified as low-risk auditee under section 530 of OMB Circular A-133?	No

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the fiscal year ended June 30, 2013

Section II – Financial Statements Findings

Our audit disclosed material weaknesses and significant deficiencies in internal control over financial reporting. We have communicated these deficiencies, along with other matters, in a separate *Report on Internal Control Related Matters Identified in an Audit* dated June 25, 2014, which is an integral part of our audits and should be read in conjunction with this report.

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the fiscal year ended June 30, 2013

Section III – Federal Awards Findings

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit

Finding SA 2013-01 Direct Labor Allocations for Program Activities

Information on the Federal Program:

Community Development Block Grant (CFDA# 14.218, Department of Housing and Urban Development)
HOME Investment Partnership Program (CFDA# 14.239, Department of Housing and Urban Development)

Criteria:

According to OMB Circular A-87, attachment B (8) (h), where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Per OMB Circular A-87, payroll costs must be adequately documented.

Condition:

Payroll charges for Community Development activities and Housing activities are based on predetermined allocations. A large portion of Housing activities are funded with federal awards which are subject to OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. This regulation requires the use of contemporaneous time keeping records as a basis for charging direct labor costs to federal awards. The use of allocations is permitted if time studies are conducted in accordance with requirements of OMB Circular A-87 and allocations are trued up.

Questioned Costs:

Community Development Block Grant (CFDA# 14.218, Department of Housing and Urban Development)
Known questioned cost is \$11,288
Likely questioned cost is \$477,234

HOME Investment Partnership Program (CFDA# 14.239, Department of Housing and Urban Development)
Known questioned cost is \$5,902
Likely questioned cost is \$25,382

Context and Effect:

Though City management is aware of the issue, the City's antiquated software does not provide for contemporaneous timekeeping as required under federal regulations and their application to direct labor charges. In addition, audits prior to fiscal year 2010-11 by the federal agencies or external auditors did not identify this as a finding.

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the fiscal year ended June 30, 2013

Section III – Federal Awards Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

Finding SA 2013-01 Direct Labor Allocations for Program Activities (Continued)

Recommendation:

We recommend the City review OMB Circular A-87 and employ those requirements as they relate to direct labor costs charged to federal award programs.

View of Responsible Officials and Planned Corrective Actions:

This finding is not new and was brought to the attention of the auditors as part of the fiscal year 2010-11 Single Audit by management when the deficiency was first identified. The City is in agreement with the finding and the recommendation. We are aware of the OMB A-87 requirements and will be working with the Indirect Cost Plan consultant and City's Internal Auditor to improve the activity based costing currently used by the City for charging payroll costs to federal programs. The City's current indirect cost allocation plan consultant has finalized the fiscal year 2011-12 OMB A-87 cost plan. The City engaged its current consultant to prepare fiscal year 2012-13 cost plan.

In addition, staff will be taking to City Council a request for authorization later this fall to issue a Request for Proposal (RFP) to hire a consultant to evaluate the City's overall cost allocation methodology as well as prepare the indirect cost plan that complies with OMB A-87. In the Moss Adams Internal Audit Plan dated September 23, 2013, a recommendation was made to "build upon recent initiatives to centralize and strengthen grant management, and work with other cities retained consultants to improve the indirect cost allocation". That plan covers a two-year period. The RFP to hire a consultant will also include work to develop a system that supports best practices and complies with federal regulations as it relates to time sheet data collection.

In the interim, staff completed a thorough review of time sheets and informed departments on the importance of substantiating payroll costs charged to federal programs. In the future, an annual true up will be performed for non-housing staff charges. Housing program employees report and charge actual time worked using the City's payroll time sheets. In addition, the City's internal auditors will perform a review of the City's overall grant management and indirect cost allocation as part of the internal audit plan.

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the fiscal year ended June 30, 2013

Section III – Federal Awards Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

Finding SA 2013-02 Suspension and Debarment Review

Information on the Federal Program:

Community Development Block Grant (CFDA# 14.218, Department of Housing and Urban Development)
HOME Investment Partnership Program (CFDA# 14.239, Department of Housing and Urban Development)

Criteria:

OMB guidance in 2 CFR part 180, which implements Executive Orders 12549 and 12689.

- Non-federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended, debarred, or whose principals are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria.
- When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA).

Condition:

Per discussion with the Economic Development Department (EDD), which administers the Community Development Block Grant and the HOME Investment Partnership Program, it was noted that for procurement of goods or services over \$25,000 no evidence was retained by the department for verification of vendors to ensure that they were not suspended, debarred, or otherwise excluded.

Questioned Costs:

Not applicable

Context and Effect:

Due to the lack of internal control, covered transactions could be entered into with vendors that may be suspended or debarred or excluded from receiving federal funds. Although the City did not verify that the vendors or contractors that they entered into covered transaction with for the Community Development Block Grant and the HOME Investment Partnership, we found that the vendors or contractors were not on the suspended or debarred list during our testing.

Recommendation:

Procedures should be implemented establishing proper protocol to ensure that all procurement and suspension and debarment requirements are made and properly documented in the City’s files.

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the fiscal year ended June 30, 2013

Section III – Federal Awards Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

Finding SA 2013-02 Suspension and Debarment Review (Continued)

View of Responsible Officials and Planned Corrective Actions:

This finding is uncorrected because our audits have been ongoing during our implementation period of the corrective action. EDD partially agrees with this finding. EDD's labor compliance consultant verifies contractors and vendors are not suspended, debarred, or excluded from receiving federal funds for projects assigned to them for labor compliance under the Davis-Bacon Act. The City agrees that the non-Davis-Bacon projects were not validated. Staff currently verifies that contractors have a valid contractor's license, and will also review the EPLS. The department's grant management procedures have been revised to include this step.

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the fiscal year ended June 30, 2013

Section III – Federal Awards Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

Finding SA 2013-03 Subrecipients

Information on the Federal Program:

Community Development Block Grant (CFDA # 14.218, Department of Housing and Urban Development)

Criteria:

A pass through entity is responsible for, at the time of the sub-award, identifying to the subrecipient the federal award information (i.e. CFDA title and number, award name and number; if the award is research and development; and name of federal awarding agency) and applicable compliance requirements.

Condition:

We determined that the City does not formally communicate the CFDA number to subrecipients under the Community Development Block Grant during the time of the sub-award.

Questioned Costs:

Not applicable

Context and Effect:

The City was not aware they were required to inform subrecipients of the CFDA number in the sub-award communication letter.

Recommendation:

The City should incorporate the CFDA number into sub-award letters.

View of Responsible Officials and Planned Corrective Actions:

Finding is uncorrected because our audits have been ongoing during our implementation period of the corrective action. The City agrees with the finding. EDD has revised the sub-award letter template to include the required information. Beginning with fiscal year 2014-15, award letters will provide the CFDA number.

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the fiscal year ended June 30, 2013

Section III – Federal Awards Findings (Continued)

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit

Finding 2012-11 Direct Labor Allocations for Program Activities

Information on the Federal Program:

Community Development Block Grant (CFDA# 14.218, Department of Housing and Urban Development)

Criteria:

According to OMB Circular A-87, attachment B (8) (h), where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Per OMB Circular A-87, payroll costs must be adequately documented.

Condition:

Payroll charges for Housing activities are based on predetermined allocations. A large portion of Housing activities are funded with federal awards which are subject to OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. This regulation requires the use of contemporaneous time keeping records as a basis for charging direct labor costs to federal awards. The use of allocations is permitted if time studies are conducted in accordance with requirements of OMB Circular A-87 and allocations are trued up.

Questioned Costs:

Known questioned cost is \$4,970

Likely questioned cost is \$129,245

Context and Effect:

A lack of understanding of federal regulations and their application to direct labor charges to programs has resulted in the City not being in compliance with the OMB Circular A-87 requirements, and direct labor costs charged to federal program may not be fair and equitable.

Recommendation:

We recommend the City review OMB Circular A-87 and employ those requirements as they relate to direct labor costs charged to federal award programs.

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the fiscal year ended June 30, 2013

Section III – Federal Awards Findings (Continued)

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

Finding 2012-11 Direct Labor Allocations for Program Activities (Continued)

Status:

The City is aware of the OMB A-87 requirements and will be working with the Indirect Cost Plan consultant and the City's Internal Auditor to improve the activity based costing currently used by the City for charging payroll costs to federal programs. The City's current indirect cost allocation plan consultant has finalized the fiscal year 2011-12 OMB A-87 cost plan. The City engaged current consultant to prepare fiscal year 2012-13 cost plan.

In addition, staff will be taking to City Council a request for authorization later this fall to issue a RFP to hire a consultant to evaluate the City's overall cost allocation methodology as well as prepare the indirect cost plan that complies with OMB A-87. In the Moss Adams Internal Audit Plan dated September 23, 2013, a recommendation was made to build upon recent initiatives to centralize and strengthen grant management, and work with other cities retained consultants to improve the indirect cost allocation. That plan covers a two-year period. The RFP to hire a consultant will also include work to develop a system to comply with best practices as it relates to time sheet data collection.

In the interim, staff completed a thorough review of time sheets and informed departments on the importance of substantiating payroll costs charged to federal programs. In the future, an annual true up will be performed for non-housing staff charges. Housing program employees report and charge actual time worked using the City's payroll time sheets. In addition, the City's internal auditors started a review in August 2014 of the City's overall grant management and indirect cost allocation. The City will use the internal auditor's recommendations to improve policies and procedures to strengthen grants management.

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the fiscal year ended June 30, 2013

Section III – Federal Awards Findings (Continued)

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

Finding 2012-12 Accurate Preparation of the Schedule of Expenditures of Federal Awards

Information on the Federal Program:

HOME Investment Partnership Program (CFDA# 14.239, Department of Housing and Urban Development)
Edward Byrnes Memorial Justice Assistance Grant (CFDA# 16.738, Department of Justice)
Highway Planning and Construction Grants (CFDA# 20.205, Department of Transportation)

Criteria:

In accordance with the requirements of OMB Circular A-133, the City should report all federal grant expenditures, grant award and CFA numbers in the SEFA accurately.

Conditions:

- The SEFA prepared by the City did not include expenditures under the Highway Planning and Construction Grant for award# STPLN-5008(072) for \$231,669 and award# NCPD-5008(059), HPLUL-5008(081) and DEM112L-5008(082) for \$1,749,999, which resulted in a total understatement of expenditures reported on the SEFA of \$1,981,668.
- The SEFA prepared by the City did not correctly identify CFDA number and grant award number for the ARRA – Community Development Block Grant.
- The CFDA number provided to us for the Edward Byrnes grant by the client and in last year's SEFA is not correct per review of supporting award letters. The award DC06-17-0390 was listed with the CFDA# 16.579, the correct CFDA# is 16.738.

Questioned Costs:

Not applicable

Context and Effect:

The City did not accurately account for all federally funded grants throughout the fiscal year due to its current accounting system set-up and policies to account for federal grant expenditures and therefore, are not in compliance with the requirements of OMB Circular A-133 to prepare an accurate SEFA.

Recommendation:

The City should implement new policy, procedure, and accounting system to ensure that expenditures for all federal grants are reported accurately on the SEFA.

Status:

In the summer 2013, the Administrative Services staff developed a comprehensive procedures manual for preparing the SEFA. The manual emphasizes how to identify and report federal awards on the SEFA. In addition, the procedures manual contains templates, checklists, definitions, and other resources to assist departmental staff in preparing an accurate SEFA as required by OMB Circular A-133. The Administrative Services Department has provided training on the new procedures to accounting and departmental staff in the Fall 2013. The SEFA and underlying accounting records for these grants were prepared prior to the new guideline and training, therefore these were not captured and reported. We anticipate that the new guidelines, training, and review process will be in place for fiscal year 2013-14 Single Audit.

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the fiscal year ended June 30, 2013

Section III – Federal Awards Findings (Continued)

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

Finding 2012-13 Reporting

Information on the Federal Program:

Community Development Block Grant (CFDA # 14.218, Department of Housing and Urban Development)

ARRA – CDBG (CFDA# 14.253, Department of Housing and Urban Development)

HOME Investment Partnership Program (CFDA# 14.239, Department of Housing and Urban Development)

Edward Byrnes Memorial Justice Assistance Grant (CFDA# 16.738, Department of Justice)

Criteria:

Financial reports should be accurate, reviewed, and submitted to the appropriate federal agency on a timely basis per OMB Circular A-110 – Financial reporting, 2 CFR section 215.52.

Conditions:

- For the grants administered under the Department of Housing and Urban Development the Federal Financial Report (SF-425) for the quarter ended 3/31/2012 was submitted 9/14/2012, which is outside the required time frame for submission.
- Quarterly and annual reports prepared and submitted under the Edward Byrnes Memorial Justice Assistance Grant were not reviewed and approved by someone independent of the preparation process or there was no indication of such review.

Questioned Costs:

Not applicable

Context and Effect:

The City experienced a high volume of staff turnover during the fiscal year under audit and did not have sufficient resources available to perform a secondary level review of the aforementioned submitted report to ensure all the information was accurate and completed in a timely manner. Though no errors in the financial information was found in the results of our test, there is risk that errors could occur and go undetected without a secondary review.

Recommendation:

The City should implement policies to ensure that the information provided in its submitted reports is current, accurate, and complete.

Status:

HUD SF-425 Form: This was part of the clean-up efforts in prior years as part of getting the City's "Fiscal House in Order". After the new management team was hired, housing grant management and reporting were scrutinized due to staff's lack of understanding of the grant requirements. The City hired a consultant to assist with housing grant reconciliation and reporting. Numerous errors and inconsistencies were identified and corrected, which resulted in delayed reporting. In the future, the City will make every effort to submit accurate and timely reports to the granting agency.

DOT JAG reports: The Police Department has updated its internal Grant Administration Guidelines and procedures, which establishes proper segregation of duties between preparer and the approver of the required reports, as well as how such review and approval should occur. All employees in the Fiscal Affairs Unit of the Police Department have received training on the updated procedures. Going forward, grant reporting and its approval will be performed by more than one person and the departments will maintain documentation of such approval.

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the fiscal year ended June 30, 2013

Section III – Federal Awards Findings (Continued)

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

Finding 2012-14 Subrecipients

Information on the Federal Program:

Community Development Block Grant (CFDA # 14.218, Department of Housing and Urban Development)

Criteria:

A pass through entity is responsible for, at the time of the sub-award, identifying to the subrecipient the federal award information (i.e. CFDA title and number, award name and number; if the award is research and development; and name of federal awarding agency) and applicable compliance requirements.

Condition:

We determined that the City does not formally communicate the CFDA number to subrecipients under the Community Development Block Grant during the time of the sub-award.

Questioned Costs:

Not applicable

Context and Effect:

The City was not aware they were required to inform subrecipients of the CFDA number in the sub-award communication letter.

Recommendation:

The City should incorporate the CFDA number into sub-award letters.

Status:

EDD has revised the sub-award letter template to include the required information. Beginning with fiscal year 2014-15, award letters will provide the CFDA number.

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the fiscal year ended June 30, 2013

Section III – Federal Awards Findings (Continued)

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

Finding 2012-15 Suspension and Debarment Review

Information on the Federal Program:

HOME Investment Partnership Program (CFDA# 14.239, Department of Housing and Urban Development)
Edward Byrne Memorial Justice Assistance Grant (CFDA Number 16.738, US Department of Justice)

Criteria:

OMB guidance in 2 CFR part 180, which implements Executive Orders 12549 and 12689.

- Non-federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended, debarred, or whose principals are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000, or meet certain other specified criteria.
- When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended, debarred, or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA).

Condition:

- Per discussion with the EDD, which administers the HOME Investment Partnership Program, it was determined that the department does not investigate potential vendors for suspension or debarment of covered transactions if the vendor is going to be funded with non-ARRA sources.
- Based on our inquiry and discussion with the grant administrator of the Edward Byrnes Memorial Justice Assistance Grant (Police Department), it was noted that for procurement of goods or services over \$25,000, no verification of vendors was made to ensure that they were not suspended, debarred, or otherwise excluded.

Questioned Costs:

Not applicable

Context and Effect:

Due to the lack of internal control, covered transactions could be entered into with vendors that may be suspended or debarred or excluded from receiving federal funds. Although the City did not verify that the vendors or contractors that they entered into covered transaction with for the HOME Investment Partnership and Edward Byrnes Memorial Justice Assistance Grant, we found that the vendors or contractors were not on the suspended or debarred list during our testing.

Recommendation:

Procedures should be implemented establishing proper protocol to ensure that all procurement, suspension, and debarment requirements are made and properly documented in the City’s files.

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the fiscal year ended June 30, 2013

Section III – Federal Awards Findings (Continued)

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

Finding 2012-15 Suspension and Debarment Review (Continued)

Status:

EDD’s labor compliance consultant verifies that contractors and vendors are not suspended, debarred, or excluded from receiving federal funds for projects assigned to them for labor compliance under the Davis-Bacon Act. The City agrees that the non Davis-Bacon projects were not validated. Staff currently verifies that contractors have a valid contractor’s license, and will also review the EPLS. The department’s grant management procedures have been revised to include this step.

The Police Department has updated its Grant Administration Guidelines. Procedures for receiving federal awards now instruct staff to verify with EPLS before any contract is awarded in the purchase of equipment. Most federal grant awards received by the Police Department are largely for personnel costs.

Grant management procedures have been revised to ensure proper protocol for suspension and debarment reviews are performed and properly documented. The updated procedures have been implemented and will be in place for fiscal year 2013-14 Single Audit.

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs, Continued
For the fiscal year ended June 30, 2013

Section III – Federal Awards Findings (Continued)

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

Finding 2012-16 Cash Management

Information on the Federal Program:

Edward Byrne Memorial Justice Assistance Grant (CFDA Number 16.738, US Department of Justice)

Criteria:

In accordance with OMB Circular A-133 Sec .105 – *Internal Control Pertaining to the Compliance Requirements for Federal Programs*, Internal control over federal programs is a process—affected by an entity's management and other personnel—designed to provide reasonable assurance regarding the achievement of the following objectives for federal programs:

- 1) Transactions are properly recorded and accounted for to:
 - a) Permit the preparation of reliable financial statements and federal reports;
 - b) Maintain accountability over assets; and
 - c) Demonstrate compliance with laws, regulations, and other compliance requirements;
- 2) Transactions are executed in compliance with:
 - a) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a federal program; and
 - b) Any other laws and regulations that are identified in the compliance supplement; and
- 3) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Condition:

During our testing of the grants cash management requirements, we noted that reimbursement requests were prepared and submitted without being reviewed and approved by someone independent of the preparation process, or there was no indication of such review.

Questioned Costs:

Not applicable

Context and Effect:

Due to the lack of internal control, reimbursement requests were made without proper review and approval before they were submitted to the granting agency. Without proper secondary review and approval, improper reimbursements requests could be made.

Recommendation:

Procedures should be implemented establishing proper segregation of duties between the preparation and approval of reimbursement requests. Segregation of duties should be designed and implemented such that reimbursement requests are independently reviewed and approved to mitigate the risk of noncompliance.

Status:

The Police Department has updated its internal Grant Administration Guidelines and procedures, which establishes proper segregation of duties between preparer and the approver of the required reports, as well as how such review and approval should occur. All employees in the Fiscal Affairs Unit of the Police Department have received training on the updated procedures. Going forward, grant reporting and its approval will be performed by more than one person and the departments will maintain documentation of such approval. The updated procedures have been implemented and will be in place for fiscal year 2013-14 Single Audit.