

City of Stockton

Stockton, California

Single Audit and Independent Auditors' Reports

For the Year Ended June 30, 2014

**City of Stockton
Single Audit Report
For the Year Ended June 30, 2014**

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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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 6, 2015.

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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies reported in our separately issued *Report on Internal Control Related Matters Identified in the Audit* to be material weaknesses as items 2014-01, 2014-02, 2014-03, 2014-04, and 2014-05.

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 deficiency reported in our separately issued *Report on Internal Control Related Matters Identified in the Audit* to be significant deficiency as item 2014-06.

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 the Audit* dated January 6, 2015, 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 separately issued *Report on Internal Control Related Matters Identified in the Audit*. 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. McGeedy LLP". The signature is written in a cursive style with a large, stylized initial "P" and "M".

Walnut Creek, California
January 6, 2015



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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL 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, 2014. 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which described in the accompanying schedule of findings and questioned costs as item SA 2014-01. 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 as 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.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item SA 2014-02 to be a significant deficiency.

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.

To the Honorable Mayor and Members of City Council
of the City of Stockton
Stockton, California
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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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated January 6, 2015, 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 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.

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

Walnut Creek, California
March 10, 2015

Except for the Schedule of Expenditures of Federal Award, which is as of January 6, 2015

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City of Stockton
Single Audit Report
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

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-13-MC-060026	\$ 1,512,021
Community Development Block Grants/Entitlement Grants - Loan Balances	14.218	Loan Balances	20,011,949
Community Development Block Grants/Entitlement Grants - Program Income	14.218	Program Income	374,320
Neighborhood Stabilization Program	14.218	B-08-MN-06-0009	2,547,894
Neighborhood Stabilization Program	14.218	B-11-MN-06-0009	2,610,365
Neighborhood Stabilization Program - Loan Balances	14.218	Loan Balances	7,333,336
Neighborhood Stabilization Program - Program Income	14.218	Program Income	2,259,929
Total CDBG - Entitlement Grants Cluster			<u>36,649,814</u>
 Emergency Shelter Grants Program	 14.231	 E-13-MC-060026	 <u>9,444</u>
 Home Investment Partnership Program	 14.239	 M-13-MC-060221	 1,760,550
Home Investment Partnership Program - Loan Balances	14.239	Loan Balances	37,857,032
Home Investment Partnership Program - Program Income	14.239	Program Income	175,158
Subtotal of Home Investment Partnership Program Grants			<u>39,792,740</u>
 Sustainable Communities Regional Planning Grant Program	 14.703	 SC360080-11-01	 <u>19,422</u>
Total U.S. Department of Housing and Urban Development			<u>76,471,420</u>
U.S. Department of Justice			
<i>Pass-Through San Joaquin County District Attorney's Office:</i>			
Edward Byrne Memorial Formula Grant Program	16.579	DC06-17-0390	<u>76,212</u>
<i>Pass-Through State of California Office of Emergency Services:</i>			
ARRA - Violence Against Women Formula Grants	16.588	LE13-06-8019	44,949
ARRA - Violence Against Women Formula Grants	16.588	LE12-05-8019	<u>128,809</u>
Subtotal of ARRA - Violence Against Women Formula Grants			<u>173,758</u>
 Project Safe Neighborhoods	 16.609	 US13-02-8019	 <u>19,450</u>
<i>Direct Program:</i>			
ARRA - Public Safety Partnership and Community Policing Grants	16.710	2011-UL-WX-0006	<u>1,654,012</u>
JAG Program Cluster			
<i>Direct Program:</i>			
Edward Byrne Memorial Justice Assistance Grant	16.738	2010-DJ-BX-1460	195,314
Edward Byrne Memorial Justice Assistance Grant	16.738	2011-DJ-BX-3476	23,175
Edward Byrne Memorial Justice Assistance Grant	16.738	2012-DJ-BX-1104	3,042
Edward Byrne Memorial Justice Assistance Grant	16.738	2013-DJ-BX-1038	48,420
Total JAG Program Cluster			<u>269,951</u>
Total U.S. Department of Justice			<u>2,193,383</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 Year Ended June 30, 2014

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)	37,118
Safe Routes to School - Pilot Program	20.205	SRTS-5008 (089)	2,860
Traffic Signal Controller Update and Retiming	20.205	CML-5008 (098)	8,845
McKinley Avenue Bridge	20.205	BRLO-5008 (099)	35,945
Airport Way at Oak, Park and Fremont	20.205	HSIPL-5008 (093)	286,289
El Dorado and MLK Traffic Signal Modification	20.205	CML-5008 (101)	183,970
Tam O'Shanter and Hammertown Project	20.205	CML-5008 (097)	7,218
Glacier Point Ansel Adams	20.205	HSIPL-5008 (102)	22,807
Fiber Optic Network Expansion	20.205	CML-5008(096)	302,783
Airport Way Beautification Phase 4	20.205	STPL-5008(112)	1,053,004
Hazelton/UPPR RR Crossing	20.205	STPLR-7500(185)	29,269
Safe Route > School Program Expansion	20.205	SRTSLNI-5008(121)	15,936
Industrial/McKinley/UPPR Xing	20.205	STPLR-7500(183)	5,568
HARRISON ELEM SAFETY IMPROVEMENT	20.205	SRTSL-5008(119)	26,060
Pacific Ave Median Improvement	20.205	SPTCSPLL-5008(114)	59,615
Aurora Street/BNSF	20.205	STPLR-7500(157)	167,573
University/Miracle Mile Improvement	20.205	SPTCSPLL-5008(115)	4,825
2010-11 Street Overlay Project RSTP	20.205	RSTPL-5008(104)	2,020
Benjamin Holt Cumberland Traffic Signal	20.205	CML-5008(111)	381,964
Benjamin Holt/Inglewood Traffic Signal	20.205	CML-5008(110)	6,487
Bus Rapid Transit PHIII/Hammer Lane	20.205	CML-5008(106)	131,800
Davis Road/Wagner Heights Traffic Signal	20.205	CLM-5008(109)	193,620
Wilson Way Corridor Adaptive Traffic Control System	20.205	CML-5008(113)	28,001
Center Street/El Dorado Overpass	20.205	BLRLS-5008(103)	12,561
HSIP Radar Speed Feedback Signs	20.205	HSIPL-5008(108)	3,029
French Camp/I-5 Reconstruction	20.205	STPIMDL-5008(116)	7,823,816
2011-12 RSTP ST OVERLAY	20.205	STPL-5008(107)	225,671
HAMMER LANE PHASE III	20.205	STPL-5008(118)	60,414
Harding Way/El Dr Trfc Sig	20.205	HSIPL-5008(128)	12,905
EVP System	20.205	HSIPL-5008(125)	10,060
BRT IV (MLK Jr Blvd)	20.205	CML-5008(123)	35,014
Filbert/Miner Traffic Sig	20.205	CML-5008(130)	21,458
Pershing Adaptive TCS	20.205	CML-5008(126)	5,119
March Ln Adaptive TCS	20.205	CML-5008(127)	10,701
Rapid Flashing Beacons C5	20.205	HSIPL-5008(124)	1,903
Cal St @ Wshngtn Trfc Sig	20.205	HSIPL-5008(131)	3,069
Montaubn/Swain Runabout	20.205	CML-5008(129)	31,663
2012-13 Resurfacing Proj	20.205	RSTPLE-5008(120)	3,316
Weber Ave Beaut Ph2 Con	20.205	RSTPLE-5008(122)	548,345
Total Highway Planning and Construction Grants			11,802,621

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 Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures
U.S. Department of Transportation (Continued)			
<i>Pass-Through State of California Office of Traffic Safety:</i>			
Highway Safety Cluster			
State and Community Highway Safety Grants			
AVOID Grant	20.600	AL1345	85,369
AVOID Grant	20.600	AL1417	88,596
STEP GRANT	20.600	PT1349	46,018
STEP GRANT	20.600	PT1455	139,813
CHECKPOINT GRANT - UC BERKELEY RESEARCH CENTER	20.600	SC13420	17,449
CHECKPOINT GRANT - UC BERKELEY RESEARCH CENTER	20.600	SC14420	37,671
Total Highway Safety Cluster			<u>414,916</u>
Total U.S. Department of Transportation			<u>12,217,537</u>
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	16,348
Total U.S. Department of Energy			<u>16,348</u>
U.S. Department of Homeland Security			
<i>Direct Program:</i>			
FEMA - Assistance to Firefighters	97.044	EMW-2012-FV-03558	800,000
<i>Pass-Through San Joaquin County Office of Emergency Services:</i>			
Homeland Security Grant Program			
Homeland Security Grant Program	97.067	2011-SS-0077	274,877
Total U.S. Department of Homeland Security			<u>1,074,877</u>
Total Expenditures of Federal Awards			<u>\$ 91,973,565</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 Year Ended June 30, 2014

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:
 - Successor Agency of the Former Redevelopment Agency of the City of Stockton

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 Schedule of Expenditures of Federal Awards (Schedule) 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 Schedule 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 Schedule of Expenditures of Federal Awards (Schedule) 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, and the County of San Joaquin, is included in the Schedule. The Schedule 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	\$ 600,826
14.231	Emergency Shelter Grants Program	244,311
16.738	Edward Byrne Memorial Justice Assistance Grant	284,454

**City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014**

Section I – Summary of Auditor’s Results

Financial Statements

Types of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• 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	\$ 36,649,814
14.239	HOME Investment Partnership Program	39,792,740
20.205	Highway Planning and Construction	11,802,621
	Total Expenditures of All Major Federal Programs	\$ 88,245,175
	Total Expenditures of Federal Awards	\$ 91,973,565
	Percentage of Total Expenditures of Federal Awards	95.95%

Dollar threshold used to distinguish between type A and type B program	\$2,759,207
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 Year Ended June 30, 2014

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 SAS 115—*Report on Internal Control Related Matters Identified in the Audit* dated January 6, 2015, which is an integral part of our audit and should be read in conjunction with this report.

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Section III – Federal Awards Findings

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

Finding SA 2014-01 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 \$1,505
Likely questioned cost is \$36,766

HOME Investment Partnership Program (CFDA# 14.239, Department of Housing and Urban Development)
Known questioned cost is \$180
Likely questioned cost is \$3,678

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 Year Ended June 30, 2014

Section III – Federal Awards Findings (Continued)

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

Finding SA 2014-01 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 are in the process of issuing a formal 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 responsible for Federal programs under the Department of Housing and Urban Development have 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 have performed a review of the City's overall grant management and indirect cost allocation as part of the internal audit plan. The results of that audit are under review by Management.

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Section III – Federal Awards Findings (Continued)

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

Finding SA 2014-02 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. As previously communicated, the Economic Development Department 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 Year Ended June 30, 2014

Section III – Federal Awards Findings (Continued)

B. Prior 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.

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.

Status:

See Finding 2014-01.

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Section III – Federal Awards Findings (Continued)

B. Prior 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.

Status:

Implemented.

City of Stockton
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2014

Section III – Federal Awards Findings (Continued)

B. Prior 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.

Status:

See Finding SA 2014-02.