

CITY OF STOCKTON, CALIFORNIA

Single Audit Reports
(OMB Circular A-133)

For the Fiscal Year Ended June 30, 2010

**CITY OF STOCKTON, CALIFORNIA
SINGLE AUDIT REPORTS
(OMB CIRCULAR A-133)
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

TABLE OF CONTENTS

	<i>Page(s)</i>
Schedule of Expenditures of Federal Awards	1-3
Notes to the Schedule of Expenditures of Federal Awards	4-7
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	8-9
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program, on Internal Control Over Compliance and the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133	10-12
Schedule of Findings and Questioned Costs	13-35
Summary Schedule of Prior Audit Findings	36-42

CITY OF STOCKTON

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010
(Dollar Amounts in Thousands)**

Federal Agency Pass-Through Agency Program Title	CFDA No.	Grant Period	Grant Number	Expenditures	
				Federal	Local
Department of Housing and Urban Development					
Direct:					
Community Development Block Grants/ Entitlement Grants	14.218	07/01/09-06/30/10	B-09-MC-060026	\$ 3,549	\$ 268
Community Development Block Grants/ Entitlement Grants	14.218		loans with continuing compliance requirements	12,180	-
Community Development Block Grants/ Entitlement Grants	14.218		program income	802	-
Neighborhood Stabilization Program (NSP)	14.218	01/30/09-01/29/12	B-08-MN-06-0009	7,663	-
Neighborhood Stabilization Program (NSP)	14.218		program income	189	-
Total Community Development Block Grants/ Entitlement Grants				<u>24,383</u>	<u>268</u>
Emergency Shelter Grants Program	14.231	07/01/09-06/30/10	S-07-MC-060026	167	-
HOME Investment Partnerships Program	14.239	07/01/09-06/30/10	M-09-MC-060021	255	-
HOME Investment Partnerships Program	14.239		loans with continuing compliance requirements	15,063	-
HOME Investment Partnerships Program	14.239		program income	122	-
Total HOME Investment Partnerships Program				<u>15,440</u>	<u>-</u>
ARRA - Homelessness Prevention & Rapid Re- Housing Program	14.257	07/01/09-06/30/10	S-09-MY-06-0026	426	-
Pass-Through:					
Housing Authority of the County of San Joaquin Public Housing Drug Elimination Program	14.854	01/01/08-12/31/09	CA-024	278	-
Total Department of Housing and Urban Development				<u>40,694</u>	<u>268</u>
Department of Justice					
Direct:					
Public Safety Partnership and Community Policing Grants	16.710	12/26/07-12/25/10	2008CKWX0291	2	-
Public Safety Partnership and Community Policing Grants -Methamphetamine Initiative	16.710	3/11/09-3/10/12	2009CKWX0505	86	-
ARRA - Public Safety Partnership and Community Policing Grants (CHRP)	16.710	7/1/2009-6/30/2012	2009RJWX0020	2,386	63
Total Public Safety Partnership and Community Policing Grants				<u>2,474</u>	<u>63</u>
Edward Byrne Memorial Justice Assistance Grant Program	16.738	07/01/06-06/30/11	2007F3402-CA-DJ	-	149
Edward Byrne Memorial Justice Assistance Grant Program	16.738	10/01/06-09/30/10	2007-DJ-BX-0262	34	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	10/1/09-7/30/12	2009 DO-BY-0574	401	-
Total Edward Byrne Memorial Justice Assistance Grant Program				<u>435</u>	<u>149</u>
National Prison Rape Statistics Program	16.739	11/18/09-10/31/12	2009-DJ-BX-0574	108	-
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants To Units of Local Government	16.804	03/01/09-02/28/13	2009-SB-B9-0539	1,252	-

See notes to the schedule of expenditures of federal awards.

CITY OF STOCKTON

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010
(Dollar Amounts in Thousands)**

Federal Agency Pass-Through Agency Program Title	CFDA No.	Grant Period	Grant Number	Expenditures	
				Federal	Local
Department of Justice (continued)					
Pass-Through					
State of California Office of Emergency Services					
Violence Against Women Formula Grants	16.588	09/01/09-02/28/11	SU09018019	137	46
Violence Against Women Formula Grants	16.588	01/01/09-12/31/09	LE08018019	103	34
Violence Against Women Formula Grants	16.588	01/01/10-12/31/10	LE09028019	73	24
Total Violence Against Women Formula Grants				313	104
San Joaquin County District Attorney's Office					
Edward Byrne Memorial Formula Grant Program	16.579	07/01/09-06/30/10	DC06170390	204	-
Edward Byrne Memorial Formula Grant Program	16.579		program income	41	85
Total Edward Byrne Memorial Formula Grant Program				245	85
Total Department of Justice				4,827	401
Department of Transportation					
Pass-Through:					
State of California Department of Transportation					
Highway Planning and Construction	20.205	09/01/07-08/31/09	STPLR-7500(069)	24	-
Highway Planning and Construction	20.205	03/27/03-06/30/12	BRLS-5008(055)	132	-
Highway Planning and Construction	20.205	08/26/02-06/30/12	NCPD-5008(059)	4,744	-
Highway Planning and Construction	20.205	08/02/04-06/30/14	STPLN-5008(072)	712	-
Highway Planning and Construction	20.205	10/11/07-06/30/13	RPSTPLE-5008(077)	29	-
Highway Planning and Construction	20.205	08/19/03-06/30/12	STPLH-5008(068)	461	-
Highway Planning and Construction	20.205	08/19/03-06/30/09	STPLH-5008(069)	243	-
Highway Planning and Construction	20.205	06/27/07-06/30/17	HPLULN-5008(079)	138	-
Highway Planning and Construction	20.205	12/15/06-06/30/12	BPMP-5008(076)	5	-
Highway Planning and Construction	20.205	10/01/07-09/30/07	STPL-5008(080)	127	-
Highway Planning and Construction	20.205	12/03/08-06/30/15	STPL-5008(084)	956	-
Highway Planning and Construction	20.205	08/20/09-06/30/15	SRTSL-5008(088)	11	-
Highway Planning and Construction	20.205	10/23/09-06/30/15	SRTSL-5008(089)	21	-
Highway Planning and Construction	20.205	02/26/10-06/30/15	CML-5008(085)	12	-
Highway Planning and Construction	20.205	02/12/10-06/30/16	HSIPL-5008(093)	5	-
ARRA - Highway Planning and Construction	20.205	12/10/09-06/30/15	ESTPL-5008(087)	243	-
Total Highway Planning and Construction				7,863	-
State of California Office of Traffic Safety					
State and Community Highway Safety	20.600	10/01/08-09/08/09	CT073901	29	-
State and Community Highway Safety	20.600	10/01/07-01/31/11	AL0837	28	-
State and Community Highway Safety	20.600	10/01/08-09/30/09	AL0994	92	-
State and Community Highway Safety	20.600	10/01/09-09/30/10	AL1016	231	-
State and Community Highway Safety	20.600	10/01/09-09/08/10	SC10420	41	-
Total State and Community Highway Safety				421	-
Interagency Hazardous Materials Public Sector Training and Planning Grants					
	20.703	10/01/08-09/30/09	HMECA8033160	29	-
Total Department of Transportation				8,313	-
Department of Energy					
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)					
	81.128	12/07/09-12/06/12	DE-EE-00008866	329	-
Department of Health and Human Services					
Medical Reserve Corps Small Grant Program					
	93.008	01/01/09-07/31/09	1MRCSG031001-02	1	-
Health Care and Other Facilities					
	93.887	07/01/08-06/30/10	C76HF009996-01-03	128	-
Total Department of Health and Human Services				129	-

See notes to the schedule of expenditures of federal awards.

CITY OF STOCKTON

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010
(Dollar Amounts in Thousands)**

Federal Agency Pass-Through Agency Program Title	CFDA No.	Grant Period	Grant Number	Expenditures	
				Federal	Local
Department of Homeland Security					
Direct					
Assistance to Firefighters Grant	97.044	02/08/08-02/07/09	EMW-2007-FO-10304	2	-
Assistance to Firefighters Grant	97.044	12/05/08-12/04/09	EMW-2008-FV-06831	489	122
Total Assistance to Firefighters Grant				491	122
Metropolitan Medical Response System	97.071	09/19/07-3/31/10	2007-2008, OSE ID#077-00000	120	-
Metropolitan Medical Response System	97.071	10/23/08-05/31/11	2008-0006, OSE ID#077-00000	80	-
Total Assistance to Firefighters Grant				200	-
Total Department of Homeland Security				691	122
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 54,983	\$ 791

See notes to the schedule of expenditures of federal awards.

CITY OF STOCKTON

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2010

NOTE A – REPORTING ENTITY

The accompanying schedule of expenditures of federal awards (SEFA) presents the expenditures of all the federal award programs of the City of Stockton, California (City) for the year ended June 30, 2010. All federal awards received directly from federal agencies as well as federal awards passed through other governmental agencies are included on the SEFA. The City's reporting entity is defined in Note 1 to the City's financial statements. Local expenditures reported in the SEFA represent the City's matching contribution for federal award programs. Expenditures funded by the American Recovery and Reinvestment Act of 2009 are denoted by the prefix "ARRA" in the federal program title.

The City administers certain federal awards through subrecipients. Those subrecipients are not considered part of the City's reporting entity.

NOTE B – BASIS OF ACCOUNTING

Expenditures as presented in the SEFA are reported on the modified accrual basis of accounting. Expenditures are recognized when they become a demand on current available financial resources.

NOTE C – LOAN GUARANTEES

The City has entered into four Section 108 loan guarantee agreements with the U.S. Department of Housing and Urban Development (HUD) to complete redevelopment projects. These loans are not included in the SEFA as the City's continuing compliance is limited to debt service payments. As of June 30, 2010, the first loan totaling \$2,645,000 has notes due in installments ranging from \$460,000 to \$600,000 and are to be paid August 1, 2010 through August 1, 2014, with interest rates ranging from 5.75% to 6.17%; the second loan totaling \$2,115,000 has notes due in installments ranging from \$135,000 to \$260,000 and are to be paid August 1, 2010 through August 1, 2020, with interest rates ranging from 5.75% to 6.62%; the third loan totaling \$4,575,000 has notes due in installments ranging from \$645,000 to \$890,000 and are to be paid August 1, 2015 through August 1, 2020, with interest rates ranging from 5.07% to 5.53%; the fourth loan totaling \$12,085,000 has notes due in installments ranging from \$415,000 to \$1,920,000 and are to be paid August 1, 2010 through August 1, 2024, with interest rates ranging from 3.11% to 5.25%. Repayment of the loans will be financed from Community Development Block Grant entitlement funds.

CITY OF STOCKTON

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE D – SUBRECIPIENTS

Federal assistance provided to subrecipients is summarized as follows:

Federal Agency Program Title	Federal CFDA#	Subrecipient	Expenditures
Department of Housing and Urban Development			
Community Development Block Grants/Entitlement Grants	14.218	San Joaquin Fair Housing Disability Resource Center for Independent Living	\$ 146,664 8,395
		San Joaquin County Hispanic Chamber of Commerce	3,507
		Point Break Adolescent Resources	21,084
		Child Abuse Prevention Council	14,887
		Mediation Center	24,451
		Second Harvest Food Bank	22,000
		Salvation Army	15,000
		San Joaquin Housing Authority	24,337
Emergency Shelter Grants Program	14.231	San Joaquin County Neighborhood Preservation	<u>167,159</u>
			<u>\$ 447,484</u>

NOTE E – HOUSING AND REHABILITATION PROGRAM LOANS

The City participates in federal housing and rehabilitation programs whereby funds have been received in the current year and prior years for housing and rehabilitation loans. Total loans outstanding for these programs are \$43,044,239 at June 30, 2010. Of this amount, loans totaling \$26,844,000 had continuing compliance requirements. The balance of these loans as of June 30, 2009 amounted to \$27,243,000. This amount has been included in the schedule of expenditures of federal awards under the Community Development Block Grants/Entitlement Grants program (CFDA No. 14.218) in the amount of \$12,180,000 and the HOME Investment Partnerships Program (CFDA No. 14.239) in the amount of \$15,063,000. Interest earned and repayment of the loans are not refunded to the federal government, but are used to make additional loans.

CITY OF STOCKTON

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE F – CALIFORNIA EMERGENCY MANAGEMENT AGENCY

The following schedules present only the amounts related to the federal grants passed through the California Office of Emergency Services (OES). These schedules reconcile the expenditures for state grant reporting purposes to the amounts presented in the SEFA.

Grant No. LE08018019 – The City reported total cumulative expenditures for the period July 1, 2009 through June 30, 2010 on Form 201 as follows:

	<u>Budget</u>	<u>Prior</u>	<u>Actual</u> <u>Current</u>	<u>Total</u>	<u>Variance</u>
Personal Services	\$ 104,533	\$ 51,326	\$ 53,209	\$ 104,535	\$ (2)
Operating Expenses	90,133	4,850	84,383	89,233	900
Total Expenditures per Form 201	<u>\$ 194,666</u>	<u>\$ 56,176</u>	<u>\$ 137,592</u>	<u>\$ 193,768</u>	<u>\$ 898</u>
		<u>Federal</u>	<u>Local</u>	<u>Total</u>	
Passed through State of California: Office of Emergency Services		\$ 103,194	\$ 34,398	\$ 137,592	
Total Expenditures per SEFA as CFDA No. 16.588		<u>\$ 103,194</u>	<u>\$ 34,398</u>	<u>\$ 137,592</u>	

Grant No. LE09028019 – The City reported total cumulative expenditures for the period July 1, 2009 through June 30, 2010 on Form 201 as follows:

	<u>Budget</u>	<u>Prior</u>	<u>Actual</u> <u>Current</u>	<u>Total</u>	<u>Variance</u>
Personal Services	\$ 104,534	\$ -	\$ 57,264	\$ 57,264	\$ 47,270
Operating Expenses	90,133	-	39,642	39,642	50,491
Total Expenditures per Form 201	<u>\$ 194,667</u>	<u>\$ -</u>	<u>\$ 96,906</u>	<u>\$ 96,906</u>	<u>\$ 97,761</u>
		<u>Federal</u>	<u>Local</u>	<u>Total</u>	
Passed through State of California: Office of Emergency Services		\$ 72,679	\$ 24,227	\$ 96,906	
Total Expenditures per SEFA as CFDA No. 16.588		<u>\$ 72,679</u>	<u>\$ 24,227</u>	<u>\$ 96,906</u>	

CITY OF STOCKTON

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)
FOR THE YEAR ENDED JUNE 30, 2010**

NOTE F – CALIFORNIA EMERGENCY MANAGEMENT AGENCY (Continued)

Grant No. SU09018019 – The City reported total cumulative expenditures for the period July 1, 2009 through June 30, 2010 on Form 201 as follows:

	<u>Budget</u>	<u>Prior</u>	<u>Actual Current</u>	<u>Total</u>	<u>Variance</u>
Personal Services	\$ 209,325	\$ -	\$ 124,566	\$ 124,566	\$ 84,759
Operating Expenses	124,008	-	58,511	58,511	65,497
Total Expenditures per Form 201	<u>\$ 333,333</u>	<u>\$ -</u>	<u>\$ 183,077</u>	<u>\$ 183,077</u>	<u>\$ 150,256</u>
		<u>Federal</u>	<u>Local</u>	<u>Total</u>	
Passed through State of California:					
Office of Emergency Services		<u>\$ 137,308</u>	<u>\$ 45,769</u>	<u>\$ 183,077</u>	
Total Expenditures per SEFA as CFDA No. 16.588		<u>\$ 137,308</u>	<u>\$ 45,769</u>	<u>\$ 183,077</u>	

City Council
City of Stockton
Stockton, California

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

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Stockton, California (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 16, 2011. Our report contained an explanatory paragraph discussing the City's implementation of new a governmental accounting standard and emphasis of certain matters. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be 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 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 deficiency described in the accompanying schedule of findings and questioned costs as item 2010-01 to be a material weakness.

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 described in the accompanying schedule of findings and questioned costs as items 2010-02 and 2010-03 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's 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 them.

This report is intended solely for the information and use of the Audit Committee, City Council, management, and officials of applicable federal and state grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Macinnis & O'Connell LLP

Certified Public Accountants

Sacramento, California
February 16, 2011

City Council
City of Stockton
Stockton, California

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM,
ON INTERNAL CONTROL OVER COMPLIANCE AND
THE SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the City of Stockton's, California (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits 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. Our audit does not provide a legal determination of the City's compliance with those requirements.

As described in item 2010-04 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding activities allowed or unallowed that is applicable to the Public Safety Partnership and Community Policing Grants (CFDA #16.710) program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

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

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-04 to be a material weakness.

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 2010-05 through 2010-08 to be significant deficiencies.

Schedule of Expenditures of Federal Awards

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, 2010, and have issued our report thereon dated February 16, 2011. Our report contained explanatory language discussing the City's implementation of a new governmental accounting standard and emphasis of certain matters. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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.

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

Maclean Mini & O'Connell LLP

Certified Public Accountants

Sacramento, California
February 16, 2011

CITY OF STOCKTON

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditor’s report issued on compliance for major programs:	
Public Safety Partnership and Community Policing Grants (CFDA #16.710)	Qualified
All other major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with § 510(a) of Circular A-133?	Yes

CITY OF STOCKTON

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010**

Section I – Summary of Auditor’s Results (continued)

Identification of major programs:

- CFDA #14.218 Community Development Block Grants/
Entitlement Grants
- CFDA #14.257 Homeless Prevention and Rapid Re-Housing
Program
- CFDA #16.710 Public Safety Partnership and Community
Policing Grants
- CFDA #20.205 Highway Planning and Construction
- CFDA #16.804 Edward Byrne Memorial Justice Assistance
Grant (JAG) Program/Grants to Units of
Local Government

Dollar threshold used to distinguish between
Type A and Type B programs: \$1,649,490

Auditee qualified as low-risk auditee? No

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Section II – Financial Statement Findings

Finding 2010-01 – Library Fund Accounts Receivable (Material Weakness)

CRITERIA

A material weakness is a deficiency, or 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.

CONDITION

The City did not have approximately \$3.4 million of accounts receivable representing uncollected fines, fees, and other charges for services recorded in the general ledger for the Library Fund. The accounting system used by the Library to account for and track the accounts receivable does not directly interface and upload into the City's accounts receivable module within the primary financial accounting and reporting system.

CAUSE

Based on observations and inquiry of City management, the error appears to result from the lack of routine reconciliations being performed between the decentralized subsidiary ledger utilized by the Library, and the City's accounts receivable module, as well as, inadequate monitoring and follow-up on outstanding accounts receivable balances.

EFFECT

The City was omitting financial transactions related to accounts receivable and revenue of the Library Fund from its financial statements. However, the City has recorded the related accounts receivable, allowance for doubtful accounts, and net revenue of approximately \$127,000 in the City's financial statements as of and for the year ended June 30, 2010.

RECOMMENDATION

The Library should implement procedures establishing specific control activities for the performance of routine reconciliation of accounts receivable between the Library Fund's subsidiary ledger and the City's general ledger. The Library should also establish monitoring procedures to ensure that the reconciliations are being performed on a timely basis, as well as, ensuring that a periodic analysis of the Library Fund's accounts receivable aging is conducted for identifying amounts that are no longer collectible.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Section II – Financial Statement Findings (Continued)

Finding 2010-01 – Library Fund Accounts Receivable (Material Weakness)

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Reconciliations

Concur - The Administrative Services Department is responsible for this finding and a series of other related findings in this report regarding the need for complete and contemporaneous reconciliations of the City's general ledger accounts with supporting documentation to ensure timely and accurate recording of the City's financial transactions.

To plan and monitor the status of general ledger balances and their reconciliation to supporting documents, the Accounting Division is updating an inventory of balance sheet and other account reconciliations necessary to ensure the accuracy and completeness of recorded balances. This inventory will include the recommended monthly, quarterly or annual frequency of reconciliations, and will be designed as a management report to monitor the status of these efforts. Implementation of this management reporting tool is targeted for May 1, 2011.

With respect to Library accounts receivable, the Administrative Services Department will continue to work with Library Services, and other City program departments, to ensure that all program activity, assets, and obligations are fully recorded and valued in the general ledger. Program financial reviews with each City department will be scheduled and conducted as part of the June 30, 2011 year-end close process to facilitate communication and identification of reportable transactions and their valuation.

Further, the Administrative Services Department will assess the feasibility, efficiency, and cost benefit of an electronic integration of Library Services fines, fees and lost materials receivable software module to interface with the City's general ledger. Assessment of the recommended integration is targeted by June 30, 2011.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Section II – Financial Statement Findings (Continued)

Finding 2010-02 – Cash Reconciliations (Significant Deficiency)

CRITERIA

A significant deficiency is a deficiency, or 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.

CONDITION

During our testing of the City's cash and investments, we noted that the reconciliation of the City's main checking account was not being performed monthly on a timely basis, resulting in unexplained and unidentified differences.

CAUSE

Based on our observations it appears that due to the lack of timely monitoring and oversight, bank reconciliations were not being timely reviewed to ensure their completeness and accuracy and to identify and determine the necessary follow-up of reconciling amounts and unexplained differences.

EFFECT

As of June 30, 2010, there were unidentified reconciling differences related to deposits in transit for the City's main checking account of approximately \$533,000.

RECOMMENDATION

The Administrative Services Department should improve upon the timeliness of performing bank reconciliations and strengthen the oversight and monitoring procedures, ensuring that complete and accurate reconciliations are being performed and there is timely follow-up to resolve any reconciling amounts and unexplained differences. Furthermore, all reconciling amounts should be clearly documented and supported.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Concur - The Administrative Services Department is responsible for this finding and a series of other related findings in this report regarding the need for complete and contemporaneous reconciliations of the City's general ledger accounts with supporting documentation to ensure accurate and timely recording of the City's financial transactions.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Section II – Financial Statement Findings (Continued)

Finding 2010-02 – Cash Reconciliations (Significant Deficiency)

To plan and monitor the status of general ledger balances and their reconciliation to supporting documents, the Accounting Division is updating an inventory of balance sheet and other account reconciliations necessary to ensure the accuracy and completeness of recorded balances. This inventory will include the recommended monthly, quarterly or annual frequency of reconciliations, and will be designed as a management report to monitor the status of these efforts. Implementation of this management reporting tool is targeted for May 1, 2011.

Due to the liquid nature of this cash asset, the Administrative Services Department has given cash reconciliations its highest priority and has assigned dedicated staff resources in the Accounting and Revenue units to this process.

Background

The complexity of performing daily cash reconciliations of an organization the size of Stockton is a contributing factor in this finding. For example, the City's banking environment is complex with six checking accounts and 56 sub-accounts. Administrative Services oversee seven different cash collection modes, including cash/checks, credit cards, wires, bank drafts, lock box, home banking, and inter-voice response (IVR). A variety or all of these payment modes are utilized by 39 different centralized and remote locations throughout the City and various County libraries.

Cash reconciliation is a collective effort of staff members in various divisions of the Department of Administrative Services, including the Accounting and Revenue units. It also requires the assistance from various City departments and external third-party entities.

Turnover of key staff members with the Administrative Services Department and rotation of the bank reconciliation assignment were also contributing factors to the City's deficiency in this area. Additionally, financial system module interface timing issues, challenges in identifying variances based on the volume of transactions, and the inability to easily extract detail information from the system by module, also contribute to the difficulty in identifying variances in a timely manner.

Corrective Action Steps

The Administrative Services Department has formed an intra-departmental team to improve the efficiency, effectiveness, and timeliness of the cash/bank reconciliation process.

CITY OF STOCKTON

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010**

Section II – Financial Statement Findings (Continued)

Finding 2010-02 – Cash Reconciliations (Significant Deficiency)

Staff members of the Accounting and Revenue units are working together to create a daily cash reconciliation process that compiles cash transactions from supporting records and tracks posting of the various cash collection and disbursement modules into the general ledger, with an emphasis on identifying and tracking timing differences and reconciling items. Objectives of this process include accuracy, efficiency, and appropriate segregation of duties between the recording and reconciliation functions.

Summary

The proposed daily cash reconciliation process is designed to strengthen the City's internal control over cash transactions with an overall goal of timely identification of errors or irregularities in the normal course of operations.

Cash reconciliations for the 2010-11 fiscal year are targeted to be current and complete by July 30, 2011, contemporaneous with the fiscal year-end close and external audit process.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Section II – Financial Statement Findings (Continued)

Finding 2010-03 – Advances to Property Owners Reconciliation (Significant Deficiency)

CRITERIA

A significant deficiency is a deficiency, or 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.

CONDITION

During our testing we noted that the reconciliation between loans to property owners recorded in the general ledger and the loan balance amounts as reported by the third party administrator, were not being performed timely, resulting in unidentified reconciling amounts.

CAUSE

Based on our observations it appears that there was insufficient follow-up procedures performed related to unidentified reconciling amounts between the loans to property owners amounts reported by the third party administrator and the amounts recorded in the City's general ledger.

EFFECT

As of June 30, 2010, there were unidentified reconciling differences between the loan portfolio of the third party administrator and the City's general ledger of approximately \$1.3 million.

RECOMMENDATION

The Administrative Services Department should improve upon the completeness of the reconciliations between the third party administrator and the general ledger and strengthen the oversight and monitoring procedures, ensuring that complete and accurate reconciliations are performed and there is timely follow-up to resolve any reconciling amounts and unexplained differences. Furthermore, all reconciling amounts should be clearly documented and supported.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Concur - The Administrative Services Department is responsible for this finding and a series of other related findings in this report regarding the need for complete and contemporaneous reconciliations of the City's general ledger accounts with supporting documentation to ensure accurate and timely recording of the City's financial transactions.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Section II – Financial Statement Findings (Continued)

Finding 2010-03 – Advances to Property Owners Reconciliation (Significant Deficiency)

To plan and monitor the status of general ledger balances and their reconciliation to supporting documents, the Accounting Division is updating an inventory of balance sheet and other account reconciliations necessary to ensure the accuracy and completeness of recorded balances. This inventory will include the recommended monthly, quarterly or annual frequency of reconciliations, and will be designed as a management report to monitor the status of these efforts. Implementation of this management reporting tool is targeted for May 1, 2011.

Background

The City currently holds approximately 480 active loans valued at over \$94 million dollars with multiple federal and state funding sources. Reconciliation of loan activity is a manual process requiring a significant amount of limited staff resources.

Staffing reductions and turnover both in Economic Development Department and the Administrative Services – Accounting unit are contributing factor to the City's deficiency in this area. Over the last year vacancies in key positions existed for more than half of the year due to employee transfers and budget constraints during the hiring freeze and heavy workloads during that time.

Corrective Action Steps

The Economic Development Department and Accounting staff are developing a new reconciliation format and process to ensure timely recording and reconciliation of loan transactions and resolution of discrepancies of recorded balances. A complete inventory of all loans is being updated and maintained through periodic reconciliation to both the General Ledger and third party administrator (Amerinational) records. Roles and responsibilities of staff to determine clear understanding of duties assumed by each department with the intent of maintaining proper segregation of duties and proper internal control.

Reconciliations will be performed on a monthly basis. All differences will be identified by specific loan number and evaluated by type so that issues are assigned to the appropriate party for research and correction in a timely manner.

Monthly status meetings between the Economic Development Department and Accounting will be held to follow up on discrepancies and/or pending items to ensure issues are resolved timely and accurately.

CITY OF STOCKTON

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010**

Section II – Financial Statement Findings (Continued)

Finding 2010-03 – Advances to Property Owners Reconciliation (Significant Deficiency)

Summary

The corrective action steps undertaken will strengthen internal controls and ensure that loan balances as reported in the general ledger are supported by City records agree to the loan balances reported by the third party administrator.

CITY OF STOCKTON

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010**

Section III – Federal Award Findings and Questioned Costs

Reference Number: 2010-04
Federal Catalog Number: 16.710
Federal Program Title: ARRA-Public Safety Partnership and Community Policing Grants (CHRP)
Federal Award Number: 2009RJWX0020
Calendar Year Awarded: 2009
Category of Finding: Activities Allowed or Unallowed
Federal Agency: Department of Justice

CRITERIA

CHAPTER 46--JUSTICE SYSTEM IMPROVEMENT SUBCHAPTER XII-E--PUBLIC SAFETY AND COMMUNITY POLICING; "COPS ON THE BEAT" Sec. 3796dd. Authority to make public safety and community policing grants

- (b) Uses of grant amounts The purposes for which grants made under subsection (a) of this section may be made are—
- (1) rehire law enforcement officers who have been laid off as a result of State and local budget reductions for deployment in community-oriented policing;
 - (2) hire and train new, additional career law enforcement officers for deployment in community-oriented policing across the Nation;

OMB CIRCULAR A-87, "COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS".

The individual State/local departments or agencies (also known as operating agencies) are responsible for the performance or administration of Federal awards. In order to receive cost reimbursement under Federal awards, the department or agency usually submits claims asserting that allowable and eligible costs (direct and indirect) have been incurred in accordance with A-87.

- (d) Conform to any limitations or exclusions set forth in A-87, Federal laws, terms and conditions of the Federal award, or other governing regulations as to types or amounts of cost items.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Section III – Federal Award Findings and Questioned Costs (Continued)

2010 COPS HIRING RECOVERY PROGRAM (CHRP) GRANTS OWNER'S MANUAL

Funding under this program may be used to re-hire officers who were, at the time of application, scheduled to be laid off on a future date as a result of state, local or tribal budget cuts.

COPS Hiring Program Grant Award – Grant Terms and Conditions Section 13

All newly hired, additional officers (or an equal number of redeployed veteran officers) funded under CHRP must engage in community policing activities.

CONDITION

During our testing of the activities allowed and unallowed compliance requirement, we noted that a police officer position being funded with COPS grant funds was not a new hire nor was the police officer identified on the City's layoff list and scheduled to be laid off. Also, we identified another police officer whose salary and benefits were funded with COPS grant funds during FY 2009/10, yet the officer was on military leave beginning in November 2009. Pursuant to the City's grant award and the COPS Hiring Recovery and Program Grant Terms and Conditions, COPS grant funds can only be used to rehire law enforcement officers who are scheduled to be laid off and used to hire new officers, both of which must engage in community policing activities

QUESTIONED COSTS

\$194,835

RECOMMENDATION

Procedures should be designed and control activities implemented to ensure that all expenditures being charged to the COPS Grant program are reviewed, approved and determined to be allowable pursuant to the funding terms and conditions of the COPS program grant award, prior to the request and/or draw down of federal funds. Furthermore, the City should proactively and collaboratively work directly with the funding agency to determine the proper course of action to remedy the noncompliance.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Section III – Federal Award Findings and Questioned Costs (Continued)

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Concur and Implemented - The Police Department has already taken the steps necessary regarding compliance with all limitations or exclusions set forth in OMB A-87, Federal laws, terms and conditions of the COPS Hiring Recovery Program, or other governing regulations as to types or amounts of cost items. Journal entries were recorded during fiscal year 2010 to correct the identified salary allocation issue with qualified replacement costs. No costs submitted by the Police Department to the federal grantor were deemed disallowed. Additionally review of personnel actions forms is being conducted by the staff person also reviewing grant reimbursement submission requests.

Background

The City's Police Department initially submitted its application for the CHRP grant in April of 2009. At that time, the grant application requested \$45 million in federal assistance funding (page 3) to recover the salary costs of 115 police officers, whose specific names were not included in this initial application. The 115 police officers were the estimate of the number of layoffs at the time of the grant application. Subsequently through the budget development and discussions with employee organizations, the number of police officers to be laid off was reduced to 55, with specific employees identified. The grant manual referred to above specifically states that the compliance measure refers to the number of police officers to be laid off at the time of the application and does not make reference to subsequent lay off lists reduced to negotiated concessions with the labor bargaining unit. Both of these employees referenced above were part of the initial internal 115 list of employees to be potentially laid off.

In reference to the employee who subsequently went on military leave during the grant period, this was an oversight by the Police Department staff due to inadequate internal controls of changes to pay status of employees. During the fiscal year, this employee went on military leave and changes to his employment status were processed by the Police, Human Resources and Administrative Services departments without communicating the change to the grant administrator in the Police Department.

Correction Action Steps

The Police Department has undertaken the necessary steps to ensure that internal control policies and procedures are in place to validate that all expenditures being charged to the (CHRP) Grant program are reviewed, approved, and are allowable under

**CITY OF STOCKTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010**

Section III – Federal Award Findings and Questioned Costs (Continued)

the provisions as set forth in the OMB A-133 Part 4 Compliance Supplement as well as the program grant agreement.

With regard to the police officers currently being charged to CHRPS grant fund, steps were undertaken during fiscal year 2010 to correct these transactions. The financial transactions related to these two police officers were removed from this funding source and were replaced with other qualified officers within the subsequent 55 police officer layoff list. Additionally, the Police Department's grant administrator and fiscal staff are reviewing and approving all CS-23 personnel action forms prior to submission to the Human Resources and Administrative Services departments' receipt for entry in the payroll system. This review will ensure that the funding source is considered before changes to pay status are executed.

Summary

The steps undertaken will strengthen internal controls over the eligibility of reported grant expenditures.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Reference Number: 2010-05
Federal Catalog Number: 16.710
Federal Program Title: ARRA-Public Safety Partnership and Community Policing Grants (CHRP)
Federal Award Number: 2009RJWX0020
Calendar Year Awarded: 2009
Category of Finding: Cash Management and Reporting
Federal Agency: Department of Justice

CRITERIA

OMB Circular A-133 Sec .105 – Internal Control Pertaining to the Compliance Requirements for Federal Programs

Internal control over Federal programs means 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:
 - (i) Permit the preparation of reliable financial statements and Federal reports;
 - (ii) Maintain accountability over assets; and
 - (iii) Demonstrate compliance with laws, regulations, and other compliance requirements;
- (2) Transactions are executed in compliance with:
 - (i) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and
 - (ii) 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

Based upon discussion and inquiry of program managers responsible for the draw down of federal funds and preparation and submission of quarterly reports, in conjunction with our testing, we noted that cash draw downs and the quarterly reports were not being reviewed and approved by someone independent of the preparation process.

QUESTIONED COSTS

There are no questioned costs.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Section III – Federal Award Findings and Questioned Costs (Continued)

RECOMMENDATION

Control activity procedures should be implemented establishing proper segregation of duties between the preparation and approval of the federal cash draw downs and quarterly reports. Segregation of duties should be designed and implemented sufficient to ensure that all federal cash draw downs and reports are independently reviewed and approved to mitigate the risk for potential noncompliance.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Concur and Implemented - The Police Department is conforming to all requirements set forth in OMB A-133, Federal laws, terms and conditions of the COPS Hiring Recovery Program, or other governing regulations. Specifically a secondary review of the report submissions is being performed as recommended.

Background

Filing the first quarterly report was challenging for the Police Department because of a number of issues that arose, including the item discussed in finding 10-06. Since it was first time this grant reporting requirement had been conducted, the senior fiscal officer of the Police Department undertook its development. The lack of secondary review took place only in the first quarter report due to one-time start-up challenges with complying with the grant reporting program requirements. All subsequently reports had a secondary review and were filed in a timely manner.

Correction Action Steps

Corrective measures has been undertaken by the Police Department to ensure that policies and procedures are in place to establish sufficient internal controls so that all reports are independently reviewed and approved to mitigate the risk of material noncompliance with OMB A-133 compliance requirements.

Following the submission of the first quarterly report, all subsequent reports have been assigned to another fiscal staff member in the Police Department for development and a review of his work is then performed by the Department's Fiscal Officer before submission.

Summary

The steps undertaken will strengthen internal controls over the supervision and review of required grant financial reports.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Section III – Federal Award Findings and Questioned Costs (Continued)

Reference Number: 2010-06
Federal Catalog Number: 16.710
Federal Program Title: ARRA-Public Safety Partnership and Community Policing Grants (CHRP)
Federal Award Number: 2009RJWX0020
Calendar Year Awarded: 2009
Category of Finding: Reporting
Federal Agency: Department of Justice

CRITERIA

2010 COPS Hiring Recovery Program Grant Owner's Manual – Federal Financial Reports

Your agency is required to submit quarterly Federal Financial reports (FFR's) using Standard 425 (SF-425) within 30 days after the end of each calendar quarter. A Final SF-425 will be due in 90 days after the end of the grant period. This report reflects the actual cumulative federal monies spent, liquidated obligations incurred, and the unobligated balance of federal funds.

Cops Hiring Recovery Program Grant Terms and Conditions – 9

To assist the COPS office in the monitoring of your award, the grantee agrees to submit quarterly programmatic progress reports and quarterly financial reports in additions to any reports required by the Recovery Act. The grantee also agreed to submit all requested reports in a timely manner.

CONDITION

During our testing of City's completion and submission of the SF-425 quarterly report, we noted that the first quarter SF-425 report submitted by the City was rejected due to the use of an incorrect Data Universal Numbering System (DUNS) number. Furthermore, there was no evidence provided for us to determine whether a revised SF-425 report for the first quarter was corrected and re-submitted.

QUESTIONED COSTS

There are no questioned costs.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Section III – Federal Award Findings and Questioned Costs (Continued)

RECOMMENDATION

Control and monitoring activities should be strengthened for identifying and ensuring required reports are accurately prepared and timely submitted as required by program guidelines.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Concur and Implemented - The Police Department is conforming to all requirements set forth by the COPS Hiring Recovery Program or other governing regulations, including the submission of all required federal reports during fiscal year 2010.

Background

The DUNS number used at the time of the grant application in April, 2009 (030911858) was deemed expired by the Federal granting agency on May 12, 2009. The Police Department staff was unaware of the expiration till it attempted to submit the first quarterly report on October 7, 2009. Registration and activation by the federal agency for the new DUNS number took time beyond the quarterly report filing deadline. The new DUNS number is 608173761 and is active thru November 4, 2011.

Correction Action Steps

Corrective measures were undertaken by the Police Department to ensure that policies and procedures are in place so that all reports are submitted timely as required by program guidelines and/or grant agreements. Access to the new DUNS number was subsequently activated and the Police Department began using it as part of its federal reporting procedure. The report referred to in this finding was subsequently submitted to the federal agency in the following second quarter as required by program guidelines.

Summary

The steps undertaken will strengthen internal controls over grant reporting in order to ensure that program funding remains intact and the City remains in compliance with grant requirements.

CITY OF STOCKTON

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010**

Section III – Federal Award Findings and Questioned Costs (Continued)

Reference Number: 2010-07
Federal Catalog Number: 16.804
Federal Program Title: ARRA-Edward Byrne Memorial Justice Assistance Grants (JAG) Program/Grants to Units of Local Governemnts
Federal Award Number: 2009-SB-B9-0539
Calendar Year Awarded: 2009
Category of Finding: Reporting
Federal Agency: Department of Justice

CRITERIA

OMB Circular A-133 Sec .105 – Internal Control Pertaining to the Compliance Requirements for Federal Programs

Internal control over Federal programs means 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:
 - (i) Permit the preparation of reliable financial statements and Federal reports;
 - (ii) Maintain accountability over assets; and
 - (iii) Demonstrate compliance with laws, regulations, and other compliance requirements;

- (2) Transactions are executed in compliance with:
 - (i) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and
 - (ii) 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

Based upon discussion and inquiry of program managers responsible for preparing and submitting programmatic information to the County of San Joaquin (County) for inclusion in the Section 1512 quarterly reports required under the American Recovery and Reinvestment Act (ARRA), there is no secondary review of the compiled information by personnel independent of the preparation process. To ensure the completeness and accuracy of the information submitted to the County, and to mitigate

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Section III – Federal Award Findings and Questioned Costs (Continued)

the risk of errors from occurring during the compilation of the reports and potential noncompliance, an independent review should be performed by personnel independent of the preparation process.

QUESTIONED COSTS

There are no questioned costs.

RECOMMENDATION

Procedures should be designed and control activities implemented so that all reports are reviewed and approved by personnel independent of the preparation process that are knowledgeable of the program and the reporting requirements.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Concur and Implemented - The Police Department is committed to conforming to all requirements set forth by Justice Assistance Grants (ARRA) program or other governing regulations.

Background

Filing the first quarterly report was challenging for the Police Department because of a number of issues that arose, including the item discussed in finding 10-06. Since it was first time this grant reporting requirement had been conducted, the senior fiscal officer of the Police Department undertook its development. The lack of secondary review took place only in the first quarter report due to one-time start-up challenges with complying with the grant reporting program requirements. All subsequently reports had a secondary review and were filed in a timely manner.

It should also be noted that the City of Stockton Police Department is a sub-recipient of this grant and that the primary grant administrator is San Joaquin County. San Joaquin County performs the final review all reports submitted to them before they consolidate the information and submit their report to the federal agency. Nonetheless, the secondary review of the Police Department fiscal staff is now being implemented.

Correction Action Steps

Corrective measures were undertaken by the Police Department to ensure that policies and procedures are in place to establish sufficient internal controls so that all reports are independently reviewed and approved to mitigate the risk of material noncompliance with OMB A-133 compliance requirements.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Section III – Federal Award Findings and Questioned Costs (Continued)

Following the submission of the first quarterly report, all subsequent reports have been assigned to another fiscal staff member in the Police Department for development and a review of his work is then performed by the Department's Fiscal Officer before submission.

Summary

The steps undertaken will strengthen internal controls in order to ensure that program funding remains intact and the City remains in compliance with grant requirements.

CITY OF STOCKTON

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010**

Section III – Federal Award Findings and Questioned Costs (Continued)

Reference Number:	2010-08
Federal Catalog Number:	20.205
Federal Program Title:	Highway Planning and Construction (HPC)
State Award Number and Project Number:	10-5008-M025 and STPLH-5008(069) 10-5008-M028 and STPLN-5008(072)
Calendar Year Awarded:	2004 and 2006
Category of Finding:	Matching
Federal Agency:	Department of Transportation
Pass Through Entity:	California Department of Transportation

CRITERIA

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 on a timely basis.

OMB Circular A-133 Sec .105 – Internal Control Pertaining to the Compliance Requirements for Federal Programs

Internal control over Federal programs means a process--effected 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:
 - (i) Permit the preparation of reliable financial statements and Federal reports;
 - (ii) Maintain accountability over assets; and
 - (iii) Demonstrate compliance with laws, regulations, and other compliance requirements;
- (2) Transactions are executed in compliance with:
 - (i) Laws, regulations, and the provisions of contracts or grant agreements that could have a direct and material effect on a Federal program; and
 - (ii) 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.

CITY OF STOCKTON

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Section III – Federal Award Findings and Questioned Costs (Continued)

CONDITION

During our testing we noted that the federal matching percentages included in the City's invoices submitted to the California Department of Transportation (CalTRANS) to request reimbursement for project costs, were not in agreement with the percentages stipulated in the finance letters issued by CalTRANS. Of the 17 invoices submitted to CalTRANS for reimbursement of project costs that were tested, 5 of the invoices related to Federal Aid Project STPLN-5008(072) - (Hammer Lane) and STPLH-5008(069) - (Farmington/Mariposa Road). According to the most recent finance letters received from CalTRANS dated February 2, 2009 and March 4, 2010 for Federal Aid Project STPLN-5008(072) - (Hammer Lane) and STPLH-5008(069) - (Farmington/Mariposa Road), respectively, the federal matching fund percentages were 39.51% and 77.27%. The federal matching percentages used by the City on its invoices to CalTRANS were 34.10% and 68.42% Federal Aid Project STPLN-5008(072) - (Hammer Lane) and STPLH-5008(069) - (Farmington/Mariposa Road), respectively.

As a result of using the incorrect federal matching percentages on its invoices to CalTRANS for the reimbursement of project costs, the City requested \$9,680 less in federal reimbursement than what the City could have claimed had the City used the proper federal matching percentages.

QUESTIONED COSTS

There are no questioned costs.

RECOMMENDATION

Management responsible for administration of the Highway Planning and Construction program need to design and implement procedures to ensure that the most up-to-date federal matching percentages, as communicated by CalTRANS, are utilized in the preparation of invoices to maximize the City's reimbursable costs and so the City maintains its compliance with federal matching requirements.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Concur and Implemented - The Public Works Department will be conforming to all requirements set forth by the State transportation funding grant programs or other governing regulations in regards to the reimbursement drawdown requests and the use of the appropriate federal matching percentage.

CITY OF STOCKTON

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2010

Section III – Federal Award Findings and Questioned Costs (Continued)

Background

Staffing reductions and heavy workloads due to budget constraints have contributed to the challenges of timely communication and routing of grant requirements between the Engineering and Fiscal Management divisions of the Public Works Department. As a result, critical financial information for amended grant agreement reimbursement allocations was not routed to the proper staff member so that accurate billings could be processed.

Correction Action Steps

Corrective measures have been implemented by the Public Works Department to centralize grant processing to ensure that all financial information can be validated before billings are processed. Policies and procedures are in place so that the most up-to-date matching percentages are used by City employees when submitting reimbursements for expenditures incurred related to federally funded projects.

Summary

The steps undertaken will strengthen internal controls in order to ensure that program funding remains intact and the City remains in compliance with grant requirements.

CITY OF STOCKTON

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Financial Statement Findings

Finding 09-1 – EXTERNAL BORROWINGS (MATERIAL WEAKNESS)

In previous years, it was discovered that an advance/loan of funds received in a prior year by the City was not communicated to the Administrative Services Department. As a result, the transaction was not properly reported in the City's Measure K Streets Sales Tax Special Revenue Fund. The City restated its June 30, 2009 financial statements, to correct the omission and properly report the transaction.

We recommended that the City strengthen its policies and procedures, to ensure that information relating to financial transactions is timely communicated by the various City departments to the Administrative Services Department. This communication is particularly important for those financial transactions that are unique and infrequent in occurrence, so the proper accounting treatment can be applied and appropriately recorded in the City's accounting system.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

The City agrees and will continue to strengthen its policies and procedures to ensure that information relating to financial transactions is timely communicated by the various City departments to the Administrative Services Department. Specifically, management's corrective action plan is to revise current policies and procedures to include Chief Financial Officer (CFO) approval on all City Council agenda items with financial content prior to presentation to Council, and CFO approval on all City loan agreements with outside private parties and governmental entities.

The Administrative Services Department will continue its efforts to improve its communication with City departments. Such efforts will include training sessions between accounting and City department staff to communicate the necessity for consulting with accounting before entering into long-term obligations, and training City department officials to recognize the long-term financial obligation of agreements rather than the short-term cash-related perspective of such transactions. The Administrative Services Department will also continue its thorough review of weekly Council agenda item documents.

STATUS

Implemented - The City's Administrative Services Department is reviewing City Council agenda items with financial content prior to presentation to Council. This allows proactive identification of financial transactions to be recorded before the agenda items are submitted to Council.

CITY OF STOCKTON

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Federal Awards Finding

Finding 09-2 – PREPARATION OF THE FINANCIAL STATEMENTS AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CRITERIA

A significant deficiency is a deficiency, or 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.

Furthermore, pursuant to Subpart C, section .300(d) of Office of Management and Budget (OMB) Circular A-133, *Audits, of States, Local Governments, and Non-Profit Organizations*, “the auditee shall prepare appropriate financial statements, including the schedule of expenditures of federal awards in accordance with section .310.”

CONDITION

While conducting our audit, we noted that the City experienced significant difficulties and delays in accurately preparing the City’s financial statements and schedule of expenditures of federal awards (SEFA). Upon receiving the SEFA and financial statements, there were numerous errors and adjustments requiring revisions, in order to accurately report and present the SEFA and the financial statements in accordance with OMB Circular A-133 and accounting principles generally accepted in the U.S.

CAUSE

Based upon our observations, it is our opinion that due to the retirement of a key employee within the City’s Administrative Services Department (Department) who was primarily responsible for overseeing the preparation of the City’s financial statements and SEFA, as well as, the Department having vacant positions, the Department is understaffed and personnel within the Department have not been able to sustain current workload requirements. Furthermore, as a result of the retirement and staffing vacancies, there does not appear to be a proper level of supervisory review, sufficient enough to ensure that financial transactions and preparation of financial statements are properly recorded and reported.

EFFECT

The City exposes itself to the risk of inaccurately recording and reporting financial transactions, as well as, preparing its financial statements.

CITY OF STOCKTON

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Federal Awards Findings (continued)

RECOMMENDATION

We strongly suggest that necessary steps be taken to ensure that the Department can accurately and timely prepare the City's financial statements and SEFA.

MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

Concur – the City will take the necessary steps to ensure that the Administrative Services Department can accurately and timely prepare the City's financial statements and Schedule of Expenditures of Federal Awards (SEFA), in compliance with generally accepted accounting principles (GAAP) and Subpart C, section .300(d) of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Specifically, management's corrective action plan contains the following two components:

- (1) Accounting Division Staffing Level and Supervisory Review Improvement Plan:
 - a. Communicate clear guidelines and expectations of the responsibilities of each of the Accounting Division staff members;
 - b. Pursue full staffing of the Accounting Division as requested in the Department's Two-Year Staffing / Transition Plan. The Transition Plan restores the Accounting Division from its current six positions to eight positions, with the two additional positions proposed to be a Senior Accountant and an entry level Accountant. Department management believes this action will provide the staffing resources necessary for a sufficient level of supervisory review of transactions to meet acceptable internal control practices for financial reporting of the City's financial statements. The implementation of this proposed staffing is dependent upon resources available and other organizational priorities.
- (2) Grants Management and Grants Accounting Improvement Plan:
 - a. Evaluate the responsibilities and fund assignments of each of the Accounting Division staff members in an effort to re-align resources to dedicate one accounting position for City-wide grant accounting. The workload level related to grant accounting and financial reporting is expected to increase in FY 2009-10 as a result of the American Recovery and Reinvestment Act (ARRA) of 2009.

CITY OF STOCKTON

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Federal Awards Findings (continued)

- b. Accounting will continue to host a meeting of the department grants managers several months before year-end to discuss closing requirements. This meeting will be increased in frequency as needed to: (1) stress use all grant funds before end of award period or notify the Accounting Division in order to consider alternative eligible costs, (2) stress timely billing and collection, and (3) review shared accounting information for accuracy.
- c. Develop a Grant Process Workgroup focused on gaining a shared understanding of the City-wide grant process, understanding the needs/concerns of the departments and of accounting, identifying and prioritizing the primary weaknesses of the process, developing action plans to address each weakness, assigning action plan tasks to workgroup members, and reporting the status of previous workplan tasks to the workgroup. Benefits are improved communication and cooperation, a process owner that is focused on the City-wide process across all departments, and employees that feel empowered about how they can improve the process.
- d. Develop and gain approval of a comprehensive City-wide grant management policies and procedures administrative directive that includes direction on the roles of the City departments and the Accounting Division in grants management, grant administration, and centralized compliance to federal and state regulations. This proposed policy will include:
 - i. Specific guidelines for coordination between the Accounting Division, the Grants Manager and the grant administrators in various City Departments;
 - ii. Specific procedures for monitoring compliance, requesting reimbursement, timely billing and collection, closing out projects, administering multi-funded projects, indirect cost recovery oversight, single audit compliance, subrecipient monitoring, and the related responsibilities of grants managers and the Accounting Division; and

CITY OF STOCKTON

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued) FOR THE YEAR ENDED JUNE 30, 2010

Federal Awards Findings (continued)

- iii. Prepare and maintain a standard file for each grant containing grant description, agreement, award and termination dates, reimbursement request timing, description of restrictions, grant manager contact info, grant allowability of indirect recovery costs, awarding agency contact information, and other relevant information.

STATUS

Partially Implemented. Over the past fiscal year, the Administrative Services Department worked with various City departments to implement the outlined corrective actions. Although full compliance of the corrective plan was not achieved, the following are steps that were undertaken and the plan for the coming fiscal year.

Staffing resources: The Accounting Unit was authorized and successfully recruited for one Accountant I to fill some of its staffing vacancy. In addition, the Accounting Manager position was filled by the appointment of the previous Supervising Accountant, and the previous position was left vacant. As a result, the overall staffing level of the Accounting Unit still falls short of staffing recommendations. An additional Sr. Accountant and an Accounting Technician would be recommended in order to provide the Accounting Unit with appropriate staffing resources to accomplish its responsibilities. However, revenue and budget constraints have not enabled the addition of these positions.

Grant accounting: Some progress was made given tight budget constraints. An ARRA grant accounting/reporting coordinating team was formed, lead by the City Auditor's Office. This coordinating team provided a forum for open communication with departments to ensure that all documentation; record keeping; and reimbursement claim information was completed timely, and that accurate reporting of the ARRA funded grants were submitted to the federal grantor agency.

Progress has been made in the development of policies and procedures. The ARRA grant team drafted a preliminary grant application/approval administrative directive. Upon final approval, the updated policies and procedures will be implemented.

The Administrative Services Department grant accountant maintains an electronic file on each ARRA grant funded project that includes all pertinent grant information including notice of intent, council resolutions, award documents and budget information. ARRA grant documentation is closely monitored due to the high visibility and

CITY OF STOCKTON

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010**

Federal Awards Findings (continued)

complexities associated with the programs and reporting requirements. The grant accountant provides accounting support to several City departments on a routine basis.

The Accounting Unit will continue to host meetings with department grant managers and will be reactivating the Grant Evaluation Team in order to continue with the implementation of the action plan detailed in this finding.

Both the ARRA Grant Team and Grant Evaluation Team will continue their efforts to communicate with departments about the importance of strong internal controls, accurate and timely reporting, and compliance with grant reporting requirements, while providing guidance and accounting support as needed.