

**CITY OF MANTECA**  
**SINGLE AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2011**

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**CITY OF MANTECA**  
**SINGLE AUDIT REPORT**  
**For The Year Ended June 30, 2011**

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## CITY OF MANTECA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For The Year Ended June 30, 2011**

**SECTION I—SUMMARY OF AUDITOR’S RESULTS****Financial Statements**

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?   Yes  X  No

**Federal Awards**

Type of auditor’s report issued on compliance for major programs: Unqualified

Internal control over major programs:

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?  X  Yes   No

Identification of major programs:

<b>CFDA#(s)</b>	<b>Name of Federal Program or Cluster</b>
14.218/14.253	Department of Housing and Urban Development-Community Development Block Grant (ARRA)
66.202	Environmental Protection Agency - Congressionally Mandated Projects
20.507	Department of Transportation - Federal Transit – Formula Grants (ARRA)
16.710	Department of Justice - Public Safety Partnership and Community Policing Grants (ARRA)
20.205	Department of Transportation – Highway Planning and Construction Grant (ARRA)

Dollar threshold used to distinguish between type A and type B programs: \$300,000Auditee qualified as low-risk auditee?  X  Yes   No

## SECTION II – FINANCIAL STATEMENT FINDINGS

Our audit did disclose material weaknesses, and significant deficiencies, but no instances of non-compliance material to the basic financial statements. We have communicated the material weaknesses and significant deficiencies, along with other matters, in a separate Memorandum on Internal Control dated December 16, 2011 which is an integral part of our audits and should be read in conjunction with this report.

## SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Our audit disclosed the following findings and questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133.

### **Finding: 2011-01**                      **Allocation of Reimbursement to Grants**

**CFDA Number:**                      20.507  
**CFDA Title:**                         ARRA - Federal Transit Formula Grants  
**Name of Federal Agency:**        U.S. Department of Transportation

**Criteria:** The Budget section of the grant agreement states that Operating Assistance will be reimbursed at a rate of up to fifty percent by the federal government.

**Condition:** For the first and second quarter of fiscal year 2011 the City requested more than the federally allowed fifty percent reimbursement rate. Under the terms of the grant agreement, the total allowable amount that should have been charged to grant number Y661 should have been \$194,492; however the City charged \$203,680 to this grant in order to use up the last of the available grant award.

**Effect:** The City charged the grant for more than is allowable under the grant agreement.

**Cause:** Since there was only \$203,680 left in the grant award and the City decided to request the full amount of the available funds.

**Recommendation:** The City should review all reimbursement requests prior to submittal to ensure that all amounts being requested for reimbursement are in compliance with the terms laid out in the grant agreement.

### **View of Responsible Officials and Planned Corrective Actions:**

**Names of contact persons:** Johanna Ferriera, Transit Manager, (209) 456-8761

The City's reimbursement request of \$203,680 was based on FTA C 9030.1D Exhibit III-1. Service Contracts wherein the contractor provides maintenance and transit service and the recipient (City) provide vehicles. Under the guideline for the capital cost of contracting, 40% of the expenses are eligible to be reimbursed at an 80% percent federal share and 60% of the expenses are reimbursable at a 50% federal share. However, since staff did not include a separate line item in the grant to account for the capital cost of contracting, \$9,188 was incorrectly charged to the grant. Staff will be returning funds with the next drawdown and will be match future requests to the allowable 50% reimbursement rate.

### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

#### **Finding: 2011-02**      **Monthly Project Status Reporting to Caltrans**

**CFDA Number:** 20.205  
**CFDA Title:** ARRA - Highway Planning and Construction  
**Federal Agency:** Department of Transportation  
**Pass-Through Entity:** California Department of Transportation

**Criteria:** As a subrecipient for the ARRA-funded 99/120 Freeway Interchange Landscaping project, the City is required to file monthly project status reports with CalTrans. This information is subsequently used by CalTrans to file Section 1512 ARRA Reports with the U.S. Department of Transportation.

**Condition:** The City did not submit the required monthly report for June 2011, and the project was listed as a “Non-Reported ARRA Project” on the CalTrans website.

**Effect:** Late submission of required monthly report could result in the delay of grant reimbursements or even the denial of reimbursement.

**Cause:** Due to staff turnover, the required monthly status report was not submitted.

**Recommendation:** The City should develop procedures to ensure timely filing of all required reports.

#### **View of Responsible Officials and Planned Corrective Actions:**

*Name of contact person:* Fernando Ulloa, Senior Engineer (209) 456-8427

The City experienced an unanticipated change in staff due to layoffs. All project responsibilities were immediately reassigned. Upon reassignment the project report has been submitted on a monthly basis and the City has remained and is currently in compliance with grant reporting requirements.

#### **Finding 2011-03**      **Timely Submission of Grant Reimbursement Requests**

**CFDA Number:** 20.205  
**CFDA Title:** ARRA - Highway Planning and Construction  
**Federal Agency:** Department of Transportation  
**Pass-Through Entity:** California Department of Transportation

**Criteria:** Special Covenant number 5 of the Program Supplement STPL-5242(022) for the Moffat Blvd./Yosemite Ave. Asphalt Concrete Overlay project requires that invoices are to be submitted “at least once every six months commencing after the funds are encumbered.” If no invoices are submitted for a six month period the City is required to submit a written explanation to the State which includes a target billing date and amount. If invoices or a written explanation are not submitted every six months, the State reserves the right to suspend future authorizations/obligations, and invoice payments for any ongoing or future federal-aid. In addition, the Cooperative Agreement for the ARRA 99/120 Landscape Project requires that the City submit monthly invoices to the State for actual monthly costs based on the prior month's actual expenditures.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)****Finding 2011-03            Timely Submission of Grant Reimbursement Requests (Continued)**

**Condition:** The City submitted the first invoice for the Moffat Blvd./Yosemite Ave. Asphalt Concrete Overlay project on August 26, 2010 and did not submit another invoice until August 22, 2011 and did not submit a written explanation to the State. In addition, for the ARRA 99/120 Landscape Project the City did not submit invoices for expenditures incurred in the months of February, March, April and May 2011 within the required one month period. The reimbursement request was not filed until July 2011.

**Effect:** The City is not in compliance with reimbursement request requirements of the Program Supplement and the Cooperative Agreement and is potentially subject to the sanctions noted above.

**Cause:** Due to absence of project activity during the winter season, and no billing from the contractor, the City had not incurred any costs and reimbursement request were not prepared. In addition, due to staff turnover the City failed to submit a written explanation regarding absence of the project activity to the State and did not prepare invoices monthly for ARRA 99/120 Landscape Project.

**Recommendation:** The City should submit invoices for the Moffat Blvd./Yosemite Avenue Project at least once every six months or a written explanation for the lack of invoice submittal with a target date and billing amount to remain in compliance with the Program Supplement. The City should prepare invoices at least monthly or as expenditures are incurred for the ARRA 99/120 Landscape Project to remain in compliance with the Cooperative Agreement.

**View of Responsible Officials and Planned Corrective Actions:**

**Name of contact person:** Fernando Ulloa, Senior Engineer (209) 456-8427

The City experienced an unanticipated change in staff due to layoffs. All project responsibilities were immediately reassigned. Reassigned staff members are now aware of invoice and reporting requirements and the City has remained and is currently in compliance with grant requirements.

**Finding: 2011-04            Delayed Filing of Reimbursement Requests**

**CFDA Number:** 20.507  
**CFDA Title:** ARRA - Federal Transit Formula Grants  
**Name of Federal Agency:** U.S. Department of Transportation

**Criteria:** In order to effectively manage the cash inflows and outflows of the grant, once expenditures are incurred, the reimbursement requests should be filed in a timely fashion. In addition, proper internal controls dictate that a second employee should be trained to perform the duties of an employee in the event of their extended absence.

**Condition:** The City did not submit a reimbursement request for its Federal Transit Formula grants for periods up to eleven months after the expenditure had been incurred due to the maternity leave of the employee responsible for filing the requests.

**Effect:** Late submission of reimbursement requests puts the City at risk of not being fully reimbursed or even at risk of not being reimbursed.



### SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Continued)

#### **Finding: 2011-04**                      **Delayed Filing of Reimbursement Requests (Continued)**

**Cause:** This delay in reimbursement filing was due to an employee’s maternity leave. In addition, no other employee had been trained or held responsible to file the claim during this employee’s absence.

**Recommendation:** Reimbursement requests should be filed timely after expenditures are incurred. The City should have another employee trained and fully capable as well as prepared to take on such responsibility when any type of emergency and or long absence occurs.

#### **View of Responsible Officials and Planned Corrective Actions:**

**Name of contact person:** Johanna Ferriera, Transit Manager, (209) 456-8761

The delay in reimbursement request is not attributable to the employee’s maternity leave, rather it is due to the practice of submitting requests on a semi-annual basis. Staff has revised its previous practice of semi-annual drawdowns and will be conducting drawdowns on a quarterly basis in order to ensure timely reimbursement requests. Transit staff has scheduled drawdown appointments with the Finance Director 30-days after the completion of each quarter.

### SECTION IV - STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS –

Prepared by Management

#### **Financial Statement Prior Year Findings**

There were financial statement findings reported in the prior year, the status of which we have communicated in a separate Memorandum on Internal Control dated December 16, 2011 which is an integral part of our audits and should be read in conjunction with this report.

#### **Federal Award Prior Year Findings and Questioned Costs**

#### **Finding: 10-01**                      **Timely Reporting and Retention and Review of Reports Filed**

**CFDA Number:**                      20.507  
**CFDA Title:**                              ARRA - Federal Transit Formula Grants  
**Name of Federal Agency:**        U.S. Department of Transportation  
**Name of pass-through Entity:** San Joaquin Council of Governments

**Criteria:** Section 1512 of the Recovery Act requires that the City submit quarterly reports no later than the tenth day after the end of each calendar quarter. The OMB Compliance Supplement for the Program and the Federal Transit Administration require the filing of the SF-269A *Financial Status Report* and the SF-425 *Federal Financial Report* for the Federal Transit Formula Grants. In addition, reports should be reviewed by an employee separate from the preparer before being submitted, and the City should retain copies of, or access to, all reports filed by the awarding agency.

**Condition:** We reviewed the City’s fiscal year 2010 reports filed for the American Recovery and Reinvestment Act of 2009 grant and found that two of the reports were filed after the ten day requirement. The fourth quarter 2009 report was created on January 14, 2010 and last updated on January 26, 2010, and the second quarter 2010 report was created on July 15, 2010, these dates were after the ten day requirement.

**SECTION IV – STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COST (Continued)**

**Finding: 10-01 Timely Reporting and Retention and Review of Reports Filed (Continued)**

In addition, the City was unable to provide copies of the SF-269A Financial Status Reports or the SF-425 Federal Financial Reports that were filed during the fiscal year.

Finally, City staff indicated that the financial reports are not reviewed by an employee other than the preparer prior to submission to the grantor.

**Effect:** Late submission of required quarterly reports could result in the delay of grant reimbursements or even the denial of reimbursement.

We were unable to test the SF-269A Financial Status Reports and the SF-425 Federal Financial Reports, as required by the OMB Compliance Supplement.

Not having the financial status reports reviewed prior to submission to the awarding agency could result in the reporting of incorrect data to the grantor.

**Cause:** The ARRA reporting requirements were new in fiscal year 2010 and the City had not developed procedures to ensure timely filing. For the other reports, the City has indicated that the reports were completed and filed timely, but was unable to access the reports on the FTA's electronic grants management system.

**Recommendation:** The City should submit all required ARRA reports within ten days after the end of each quarter to remain in compliance with the grant requirements. Furthermore, the City should maintain copies or have access to all reports that are submitted to awarding agencies, and all reports should be reviewed prior to submission to the awarding agency to ensure the reports are accurate and complete.

**Current Status:**

Staff has scheduled all report deadlines in their calendar in order to assure timeliness of submission.

With the implementation of scheduled report deadlines, the City has and continues to remain compliant with all grant requirements.

**Name of contact person:** Johanna Ferreira, Project Manager, (209) 456-8761

**Finding 10-02**

**Access to OMB Cost Circulars**

**CFDA Number:** 20.507  
**CFDA Title:** ARRA - Federal Transit Formula Grants  
**Name of Federal Agency:** U.S. Department of Transportation  
**Name of pass-through Entity:** San Joaquin Council of Governments

**Criteria:** City staff should be familiar with the OMB Cost Circular that details costs and other cost accounting policies that are allowable for federal grants as well as costs that are unallowable. Local governments are subject to OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments."

**SECTION IV — STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COST (Continued)****Finding 10-02****Access to OMB Cost Circulars (Continued)**

**Condition:** The Transit Manager associated with requesting reimbursement under the Federal Transit Formula Grants indicated that she did not know about the A-87 Cost Circular.

**Effect:** If staff responsible for preparing reimbursement requests is not familiar with the Cost Circular limitations, they could request reimbursement for items that are not allowable.

**Cause:** City staff used the grant documents, rather than the OMB Cost Circular.

**Recommendation:** The City should ensure that all grant staff are familiar with the OMB Cost Circular and have easy access to the Circular, which is available from the OMB website. In addition, the staff should consult the Cost Circular when preparing grant reimbursement requests.

**Current Status:**

Staff is aware of OMB Cost Circular A-87 and the Grant Accountant (Tamara Lukens) has a copy of the OMB Cost Circular A-87 if anyone needs to view a hard copy.

**Name of contact person:** Johanna Ferreira, Project Manager, (209) 456-8761

**CITY OF MANTECA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Fiscal Year Ended June 30, 2011**

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
Department of Housing and Urban Development <b>Pass-Through</b> Programs From:			
San Joaquin County Community Development Department			
Community Development Block Grants			
Program Expenditures	14.218	A-93-916	\$152,377
Subgrants	14.218	A-93-916	167,983
ARRA - Community Development Block Grant (CDBG-R)	14.253	Not Available	<u>34,379</u>
Total Department of Housing and Urban Development			<u>354,739</u>
Department of Homeland Security <b>Direct</b> Program			
Assistance to Firefighters			
SAFER Grant	97.044		<u>34,155</u>
Department of Justice <b>Direct</b> Programs			
Bureau of Justice Assistance			
Bulletproof Vest Partnership Program	16.607		<u>4,647</u>
Public Safety Partnership and Community Policing Grants			
ARRA COPS Hiring Recovery Program Grant	16.710	2009 RKWX0152	<u>527,081</u>
Department of Justice <b>Pass-Through</b> Programs From:			
City of Stockton Police Department			
Edward Byrne Memorial Justice Assistance Grant Program			
2011 Justice Assistance Grant	16.738	2011-DJBX-2691	24,870
San Joaquin County			
Edward Byrne Memorial Justice Assistance Grant Program			
2009 Justice Assistance Grant	16.738	2009-SB-B9-0539	<u>41,652</u>
Subtotal Edward Byrne Memorial Justice Assistance Grant Program			<u>66,522</u>
Total Department of Justice			<u>598,250</u>
Department of Transportation <b>Pass-Through</b> Programs From:			
State of California Department of Transportation			
Highway Planning and Construction			
ARRA Roadway Rehab 2009	20.205	ESPL-5242 (021)	109,850
Moffat/Yosemite STP	20.205	STPL-5242 (022)	1,089,256
Atherton Gap	20.205	STPL-5242 (024)	67,339
ARRA 99/120 Landscape	20.205	ESPL-5242 (025)	569,783
CMAQ - Street Sweepers	20.205	CML-5242 (026)	339,336
ARRA 99/120 Landscape	20.205	ESPL-5242 (027)	<u>545,090</u>
Subtotal Highway Planning and Construction			<u>2,720,654</u>
State of California Office of Traffic Safety			
State and Highway Community Safety			
DUI EAP	20.600	AL1177	65,229
AVOID the 10 DUI Campaign	20.600	AL0837	28,695
Vehicle Impound Grant	20.600	PT1049	24,282
Mini DUI Checkpoint	20.600	SC10248	12,855
Avoid the 10 - Stockton Pass Through	20.600	20579	9,394
Click It Or Ticket Program	20.600	CT10248	8,775
Mini DUI Checkpoint	20.600	SC11248	<u>4,381</u>
Subtotal State and Highway Community Safety Programs			<u>153,611</u>
Department of Transportation <b>Direct</b> Program			
Federal Transit Administration			
Federal Transit-Formula Grants (Urbanized Area Formula Program)			
ARRA Passenger Amenities	20.507	CA-96-X032	268,321
Capital Purchase and Short Range Plan	20.507	CA-90-Y368	444,031
Operation, Bus Stop Improvement, Safety	20.507	CA-90-Y661	408,903
Multimodal Station Construction	20.507	CA-90-Y856	<u>37,490</u>
Subtotal Federal Transit Formula Grants			<u>1,158,745</u>
Total Department of Transportation			<u>3,923,160</u>
Department of Energy <b>Direct</b> Program			
Energy Efficiency Conservation Block Grant			
Street Light Retrofit	81.128	SC0002738	<u>294,374</u>
Environmental Protection Agency <b>Direct</b> Program			
Congressionally Mandated Projects			
Water Infrastructure - Arsenic Reduction Project	66.202	XP-00T56701-0	<u>477,000</u>
Total Expenditures of Federal Awards			<u>\$5,791,528</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

**CITY OF MANTECA****NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For The Year Ended June 30, 2011****NOTE 1-REPORTING ENTITY**

The Schedule of Expenditure of Federal Awards (the Schedule) includes expenditures of federal awards for the City of Manteca, California and its component units as disclosed in the notes to the Basic Financial Statements.

**NOTE 2-BASIS OF ACCOUNTING**

Basis of accounting refers to *when* revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus applied. All governmental funds and agency funds are accounted for using the modified accrual basis of accounting. All proprietary funds are accounted for using the accrual basis of accounting. Expenditures of Federal Awards reported on the Schedule are recognized when incurred.

**NOTE 3-DIRECT AND INDIRECT (PASS-THROUGH) FEDERAL AWARDS**

Federal awards may be granted directly to the City by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the City. The Schedule includes both of these types of Federal award programs when they occur.

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

Honorable Mayor and City Council  
of the City of Manteca, California

We have audited the financial statements of the City of Manteca as of and for the year ended June 30, 2011, and have issued our report thereon dated December 16, 2011. The report included a special emphasis paragraph concerning proposed redevelopment dissolution and a paragraph discussing the implementation of Governmental Accounting Standards Boards Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. We conducted our audit in accordance with generally accepted auditing standards 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***

Management of the City is responsible for establishing and maintaining effective 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 certain deficiencies in internal control over financial reporting that we consider to be material weaknesses 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 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 have identified certain deficiencies we consider to be material weaknesses. These are listed in our separately issued Memorandum on Internal Control dated December 16, 2011.

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 have identified certain deficiencies we consider to be significant deficiencies in internal control over financial reporting. These are listed as items are separately issued Memorandum in Internal Control dated December 16, 2011.

### *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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which we have communicated in a separate Memorandum on Internal Control dated December 16, 2011.

We have also issued a separate Memorandum on Internal Control dated December 16, 2011 which is an integral part of our audits and should be read in conjunction with this report.

The City's responses to the findings identified in our audit are described in the Memorandum on Internal Control. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of City Council, management, and 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.

*Mare & Associates*

December 16, 2011



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

Honorable Mayor and City Council  
of the City of Manteca, California

*Compliance*

We have audited City of Manteca's 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, 2011. 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 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. 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.

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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs.

### *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.

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-01, 2011-03 and 2011-04. 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.

### *Schedule of Expenditures of Federal Awards*

We have audited the financial statements of the City as of and for the year ended June 30, 2011, and have issued our report thereon dated December 16, 2011. Our audit was performed 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 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 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 management, City Council, 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.

*Mare & Associates*

February 29, 2012