



PRESENTATION TO THE AUDIT COMMITTEE OF THE CITY OF MODESTO, CALIFORNIA

January 21, 2025

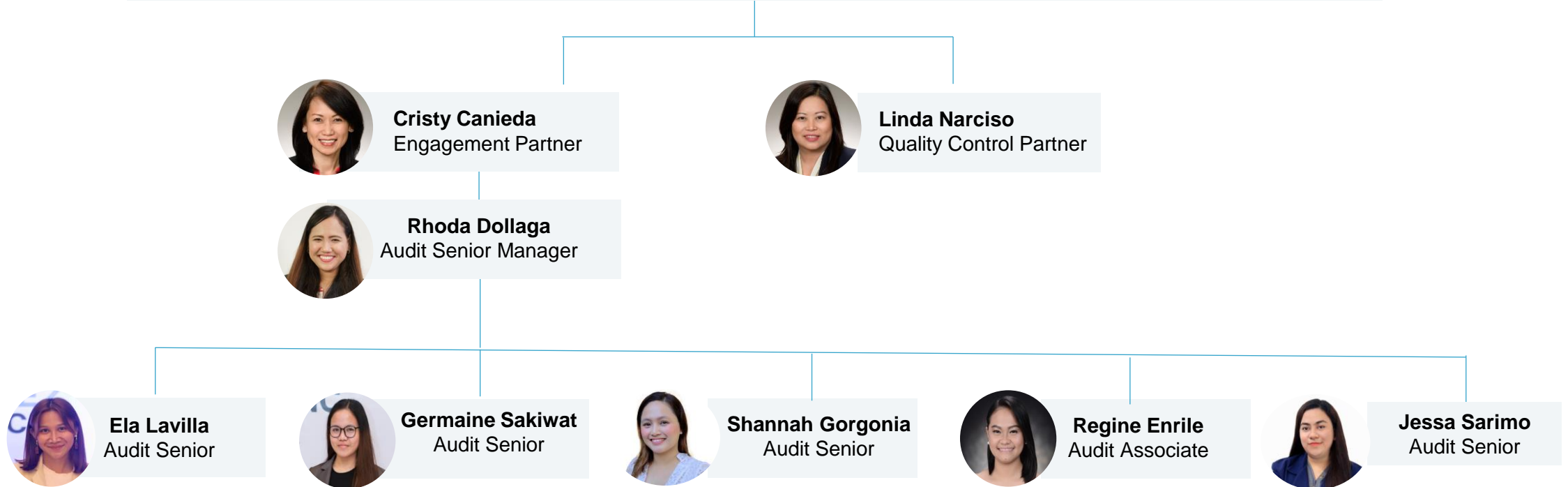


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/ Audit Team

City of Modesto Engagement Team



/ Scope of Services



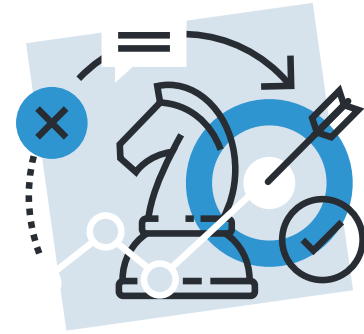
The Financial Statements Audit

- City's basic financial statements
- City's IT General Controls
- City's 13 Community Facilities Districts
- City's Measure H Fund
- City's Transportation Development Act Funds
- City's Abandoned Vehicle Abatement Program
- Tuolumne River Regional Park
- Modesto-Ceres Fire Protection Agency



The Single Audit

Audit of Major Federal Grant Programs in accordance with the Uniform Guidance



Consultation

Year-Round Consultation on Financial and Accounting Matters

/ Independence

There are no relationships between any of our representatives and the City that, in our professional judgment, may reasonably be thought to bear on independence.

Vasquez & Company LLP meets the independence requirements of the *Government Auditing Standards* as it relates to City.

/ Summary of Audit Results



/ Financial Statements Audit



Unmodified Opinions on Financial Statements

- The financial statements present fairly, in all material respects, the City's financial position and changes in net position.
- The supplemental combining financial statements and supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Internal Control over Financial Reporting

- No material weaknesses and significant deficiencies were noted on internal control over financial reporting.

/ Single Audit

1 Major Programs

- ALN 14.218 – Community Development Block Grants (CDBG)/Entitlement Program (\$7.0 million including \$4.1 million balance of loans from previous years)
- ALN 14.239 – HOME Investment Partnerships Program (\$24.6 million including \$21.0 million balance of loans from previous years)
- ALN 20.205 – Highway Planning and Construction (\$6.7 million)
- ALN 21.027 - Coronavirus State and Local Fiscal Recovery Funds (\$7.4 million)

The major programs covered 94.4% of total federal expenditures of \$48.4 million.

2 Classification

- The City is classified as a “Low-Risk Auditee” based on the Federally-prescribed criteria.

3 Results

- No financial statements findings.
- No federal awards findings.
- No prior year financial statements and federal awards findings.

/ Financial Reporting Highlights – Government-wide

Overall Net Position

- The City's overall net position increased by \$38.26 million from \$1.19 billion at June 30, 2023, as restated, to \$1.23 billion as of June 30, 2024. (ACFR p. 19)

Unrestricted Deficit in Net Position

- The City's unrestricted net position increased by \$95.83 million from \$55.78 million at June 30, 2023, as restated, to \$151.61 million as of June 30, 2024. (ACFR p. 8)

City-wide Expenses

- City-wide expenses increased to \$488.35 million in FY 2024 from \$400.14 million in FY 2023, an increase of \$88.21 million. (ACFR p. 9)

Prior Year Adjustments/ Restatement

- The City determined certain corrections in the previously issued 2023 financial statements which required restatement of the 2023 net position from \$1.34 billion to \$1.19 billion or to decrease by \$150 million. This includes the overstatement of capital assets amounting to \$149.25 million related to the construction of State Route 132 which will not be owned by the City upon completion. (ACFR p. 104)

/ Financial Reporting Highlights – Fund Level

Net Pension and OPEB Liability

- The City reported the following Net Pension and Net OPEB liabilities at June 30, 2024:
 - Net Pension liability - \$428.21 million (2023 - \$416.05 million) (ACFR p. 100)
 - Net OPEB Liability - \$19.01 million (2023 - \$18.94 million) (ACFR p. 94)

Governmental Fund Expenditures

- Governmental Fund expenditures increased in 2023-24. (ACFR p. 12)
 - Governmental Fund expenditures 2023-24 \$291.64 million
 - Governmental Fund expenditures 2022-23 \$255.59 million

General Fund Total Fund Balance

- The City's General Fund total fund balance increased by \$30.28 million during the year from the restated amount of \$52.78 million in 2023 to \$83.06 million at the end of 2024. This is \$42.26 million higher than the projected General Fund end of the fiscal year fund balance of \$40.80 million. (ACFR p. 113)

/ Financial Reporting Highlights – Fund Level, continued

Enterprise Funds

- The Enterprise Funds generated net revenues before contributions and operating transfers of \$30.07 million.
 - Water generated a net income of \$4.01 million before contributions and operating transfers.
 - Sewer generated a net income of \$21.38 million before contributions and operating transfers.
 - Nonmajor Enterprise Funds generated a net income of \$4.68 million before contributions and operating transfers.

Internal Service Funds

- The Internal Service Funds reported a net position of \$22.62 million, which was an increase of \$1.39 million from \$21.23 million in FY 2023.

/ Required Communications



/ Required Communications

Auditor's Responsibility	Our responsibilities have been described in our engagement letter dated March 7, 2024.
Planned scope and timing of the audit	We have issued a separate communication regarding scope and timing of our audit.
Difficulties with Management	We did not encounter any difficulties with management while performing our audit procedures.
Adoption of, or change in Accounting Policies	Management has the primary responsibility for the accounting principles used, their consistency, application and clarity. During the fiscal year ended June 30, 2024, the City implemented GASB Statement No. 100 – <i>Accounting Changes and Error Corrections</i> . The implementation of this Statement has resulted in the restatement of beginning fund balances and net position and additional note disclosure to the financial statements.
Significant Accounting Policies	We did not identify any significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.
Significant Unusual Transactions	We did not identify any significant unusual transactions.

/ Required Communications, continued

Audit Adjustments	Audit adjustments, other than those that are clearly trivial, proposed by us and recorded by the City. We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
Disagreements with Management	We encountered no disagreements with management over the application of significant accounting principles, the basis for management's judgments on any significant matters, the scope of the audit, or significant disclosures to be included in the financial statements.
Consultations with Other Accountants	We are not aware of any consultations by management with other accountants about accounting or auditing matters.
Significant Issues Discussed With Management	No significant issues arising from the audit were discussed or the subject of correspondence with management.
Significant Difficulties Encountered in Performing the Audit	We did not encounter any significant difficulties in dealing with management during the audit.

/ Required Communications, continued

Significant Matters That Required Consultation	We did not encounter any difficult or contentious matters that required consultation outside the engagement team and that are, in our professional judgment, significant and relevant to your responsibility to oversee the financial reporting process.
Shared Responsibilities for Independence	Independence is a joint responsibility and is managed most effectively when management, City Council, and audit firms work together in considering compliance with American Institute of Certified Public Accountants (AICPA) and <i>Government Accountability Office</i> (GAO) independence rules. AICPA and GAO rules require independence both in mind and in appearance when providing audit and other attestation services. Vasquez ensures that the AICPA and GAO's General Requirements for performing non-attest services are adhered to and included in all letters of engagement. Vasquez maintains a system of quality control over compliance with independence rules and firm policies.
Conditions of Retention	No significant issues were discussed, or subject to correspondence, with management prior to retention.
Irregularities, Fraud or Illegal Acts	No irregularities, fraud or illegal acts came to our attention as a result of our audit procedures.
Significant Written Communication Between Management and Our Firm	The most significant written communications between management and our firm were the Letter of Comments to Management and the Management Representation Letter.

/ Required Communications, continued

Summary of Significant Accounting Estimate

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. The following describes the significant accounting estimates reflected in the City's June 30, 2024 financial statements.

- The estimated useful lives of the City's capital assets were based on management's best estimate and prevailing practices in the local government sector.
- Net pension/ other postemployment benefits (OPEB) liabilities were actuarially calculated based on certain assumptions disclosed in notes to the financial statements.
- Investments' fair market values were obtained from the fiscal agents, the pension and OPEB trustees, the investment custodian and the bond trustees and based on amortized cost and observable inputs.
- The fair values of interest rate swaps were estimated by PFM using the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates,
- The City's receivables are stated at the amounts collectible based on the results of the City's evaluations.
- Claim payables are estimated when a loss has occurred and the amount of the loss can be reasonably estimated and include an amount for claims that have been incurred, but not reported as of the end of the year.
- The net present values of the future leases and subscription payments are calculated based on the estimated incremental borrowing rates and investment rate of returns for the City.

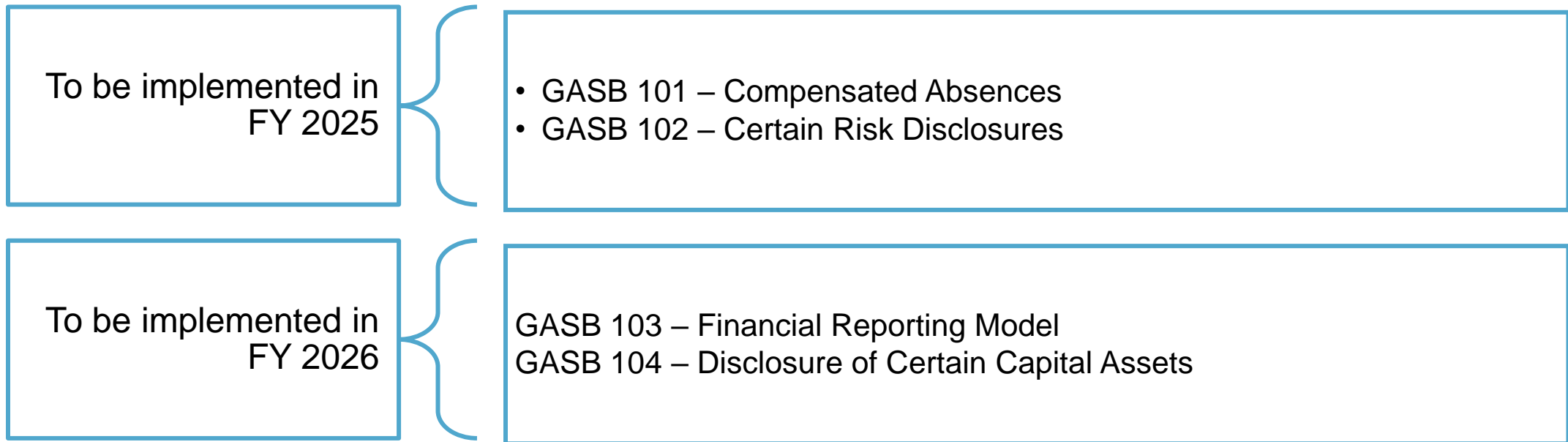


/ New Accounting Pronouncements Effective in Future Years



/ New Accounting Pronouncements – Effective in Future Years

The Governmental Accounting Standards Board (GASB) has issued several pronouncements that have effective dates that may impact future financial presentations.



Questions

/ Contact Information

Vasquez + Company LLP has over 50 years of experience in performing audit, tax, accounting, and consulting services for all types of nonprofit organizations, governmental entities, and private companies. We are the largest minority-controlled accounting firm in the United States and the only one to have global operations and certified as MBE with the Supplier Clearinghouse for the Utility Supplier Diversity Program of the California Public Utilities Commission.

We are clients of the **RSM Professional Services+ Practice**. As a client, we have access to the Professional Services+ Collaborative, a globally connected community that provides access to an ecosystem of capabilities, collaboration and camaraderie to help professional services firms grow and thrive in a rapidly changing business environment. As a participant in the PS+ Collaborative, we have the opportunity to interact and share best practices with other professional services firms across the U.S. and Canada.

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**Thank you for your
time and attention!**





January 14, 2025

To: City of Modesto Audit Committee
 From: Moss Adams LLP
 Subject: Internal Audit Status Report October 16, 2024 through January 14, 2025



INTERNAL AUDIT PROJECTS	WATER AND WASTEWATER UTILITIES FISCAL REVIEW	PAYROLL PROCESS AND CONTROLS REVIEW	RECOMMENDATION VALIDATION PROCESS	CAPITAL PROGRAM BEST PRACTICES	ACCOUNTS RECEIVABLE INTERNAL CONTROLS REVIEW	PERMITTING EFFICIENCY STUDY UPDATE
Schedule	August 2024 -February 2025	October 2024 - February 2025	August 2024 - June 2025	November 2024 - March 2025	March - June 2025	February - June 2025
Budget Status: Total Budget and % Expended through 12/30	\$55,000 90%	\$40,000 46%	\$15,000 51%	\$35,000 5%	\$35,000 0%	\$40,000 0%
Activities for This Period	Completed fieldwork and analysis, developed draft report	Conducted interviews and completed testing	Kicked off project, compiled initial inventory of findings and recommendations 2016 to present, completed initial validation of closed findings	Held project kick-off, requested and received initial documents, held first round of interviews.	None	None
Activities for Next Period	Finalize report	Develop preliminary observations; develop draft report	Continue to close findings based on submitted documentation	Conduct fieldwork, including review of uploaded documents, consolidate key takeaways from interviews, and compile list of initial themes.	Initiate project, conduct fieldwork	Initiate project, conduct fieldwork
Issues	None	None	None	None	None	None

BASIC INTERNAL AUDITOR SERVICES	ONGOING INTERNAL AUDIT SERVICES
Schedule	July 2024 through June 2025
Budget Status: Total Budget and % Expended	\$30,000 47%

ETHICS HOTLINE STATISTICS				
Complaint Type	Complaints Received During the Period	Under Review	Referred to Appropriate City Official(s)	Closed
Compliance & Ethics	6	0	6	6
Fraud	0	0	0	0
Employment Matters	1	0	1	1



AUDIT FINDING VALIDATION

City Auditor's Office
January 21, 2024



Purpose, Scope, and Methodology

- Audit finding validation aims to verify whether corrective actions have been effectively implemented to address issues identified during audits.
 - During these projects, we review audit findings reported since 2016 across various areas including financial reporting, regulatory compliance, operations, etc.
 - To validate a finding, we review supporting documentation or complete walk-throughs to confirm that issues have been resolved
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Status

- Since 2016, the City has been issued 237 findings and recommendations
- To date, the City has resolved 168 findings and recommendations (70.9%)
 - Progress to address many findings is ongoing
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CITY OF
MODESTO
CALIFORNIA