

City of Fresno

Compliance Reports and Other Financial Information
Year Ended June 30, 2007

McGladrey & Pullen

Certified Public Accountants

McGladrey & Pullen, LLP is a member firm of RSM International,
an affiliation of separate and independent legal entities.

Contents

Schedule of Expenditures of Federal and State Awards	1-11
Notes to schedule of expenditures of federal and state awards	12-14
<hr/>	
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>	15 and 16
Compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133 and on the schedule of expenditures of federal and state awards	17 and 18
<hr/>	
Schedule of Findings and Questioned Costs	19-21
<hr/>	
Summary Schedule of Prior Year Audit Findings	22-26
<hr/>	
Independent Accountant's Report on Applying Agreed-upon Procedures	27 and 28
Appropriations limit calculation	29
<hr/>	

City of Fresno

Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	Federal Expenditures
U.S. Department of Housing and Urban Development				
Office of Community Planning and Development				
Community Development Block Grants/Entitlement Grants, Direct Program				
FY07 Community Development Block Grant	14.218*		B-06-MC-06-0001	\$ 9,707,382
FY06 Community Development Block Grant	14.218*		B-05-MC-06-0001	197,874
FY05 Community Development Block Grant	14.218*		B-04-MC-06-0001	153,112
Total Direct CDBG Program				<u>10,058,368</u>
Emergency Shelter Grants Program, Direct Program				
FY07 Emergency Shelter Grant	14.231		S-06-MC-001	251,655
FY06 Emergency Shelter Grant	14.231		S-05-MC-001	61,339
Total Direct ESG Program				<u>312,994</u> **
HOME Investment Partnership Program, Direct Program				
FY07 HOME	14.239		M-06-MC-06-0204	6,351,006
FY06 HOME	14.239		M-05-MC-06-0204	5,867
FY05 HOME	14.239		M-04-MC-06-0204	50,589
FY04 HOME	14.239		M-03-MC-06-0204	1,354,353
FY03 HOME	14.239		M-02-MC-06-0204	(2,259)
Total Direct HOME Program				<u>7,759,556</u>
Community Development Block Grants/Brownfields Economic Development Initiative, Direct Program				
EDI-Special Projects	14.246		B-03-SP-CA-0112	6,257
EDI-Special Projects	14.246		B-04-NI-CA-0002	784
EDI-One by One Leadership	14.246		B-02-SP-CA-0064	25,843
Total Direct EDI Program				<u>32,884</u>
Office of Public and Indian Housing, Pass-through Program				
Public Housing Capital Fund FY06/7	14.872	Housing Authority of Fresno	FY06/7	95,079
Total Pass-through HUD Program				<u>95,079</u>
		<i>Total U.S. Department of Housing and Urban Development</i>		<u>18,258,881</u>

* Denotes major program.

** Program expenditure is net of local match requirement.

CFDA—Catalog of Federal Domestic Assistance

N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	Federal Expenditures
U.S. Department of Interior				
National Park Service				
Outdoor Recreation Acquisition, Development and Planning, Pass-through Program				
Development of Victoria West Park	15.916	CA Dept of Parks & Rec/Land & Water Conservation Fund	C8939007	\$ 478,664
Chaffee Zoo	15.916	CA Dept of Parks & Rec/Land & Water Conservation Fund	C8940009	17
Fulton Mall Play Area Development	15.916	CA Dept of Parks & Rec/Land & Water Conservation Fund	C8940010	16,268
Total Pass-through NPS Program	<i>Total U.S. Department of Interior</i>			<u>494,949</u> **
U.S. Department of Justice				
Asset Forfeiture, Direct Program	16.000			623,579
Asset Forfeiture, Pass-through Program	16.000	County of Fresno	FY07	28,261
Total Asset Forfeiture Program				<u>651,840</u>
Office of Juvenile Justice and Delinquency Prevention, Pass-through Program				
Juvenile Accountability Incentive Block Grant (JABG 07)	16.523	CA Dept of Corrections & Rehab, Corrections Standards Authority	101-06	14,823
Total Pass-through OJJDP Program				<u>14,823</u> **
National Institute of Justice, Direct Program				
National Institute of Justice Research, Evaluation & Development Project Grants (Cold Case DNA)	16.560		2005-DN-BX-K006	252,731
Total Direct NIJ Program				<u>252,731</u>
Violence Against Women Office				
Violence Against Women Formula Grants/ Law Enforcement, Pass-through Program				
Specialized Units Program FY06	16.588	CA Office of Emergency Services	LE05036675	31,736
Specialized Units Program FY07	16.588	CA Office of Emergency Services	LE06046675	95,701
Total Pass-through VAWO Program				<u>127,437</u> **
Bureau of Justice Assistance, Direct Program				
2004 Local Law Enforcement Block Grant Program	16.592		2004-LB-BX-0404	65,973
Total Direct BJA Program				<u>65,973</u> **

* Denotes major program.

** Program expenditure is net of local match requirement.

CFDA—Catalog of Federal Domestic Assistance

N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	Federal Expenditures
U.S. Department of Justice, Continued				
Executive Office for Weed and Seed				
Community Capacity Development Office, Pass-through program				
2006 Weed and Seed SE	16.595	United Way of Fresno County	2006-WS-Q6-0037	\$ 67,290
2006 Weed and Seed SW	16.595	United Way of Fresno County	2006-WS-Q6-0045	86,227
Total Pass-through EOWS Program				<u>153,517</u>
Bureau of Justice Assistance, Direct Program				
Bulletproof Vest Partnership Program (FY07)	16.607		FY07	14,438 **
Total Direct BJA / BVP Program				<u>14,438</u>
Edward Byrne Memorial Justice Assistance Grant Program				
FY 05	16.738		2005-DJ-BX-0077	46,779
FY 06	16.738		2006-DJ-BX-0749	174,667
Total Direct BJA / JAG Program				<u>221,446</u>
Office of Community Oriented Policing Services				
Public Safety Partnership and Community Policing Grants, Direct Program				
COPS Universal Hiring Award	16.710		2002ULWX0061	1,435,438
COPS in Schools Award FY04	16.710		2004SHWX0147	30,685
Total Direct OCOPS Program				<u>1,466,123 **</u>
Office of Juvenile Justice and Delinquency Prevention				
Enforcing Underage Drinking Laws Program, Pass-through Program				
ABC FY07	16.727	CA Department of Alcoholic Beverage Control	05G-LA04	121,264
Total Pass-through OJJDP Program				<u>121,264</u>
<i>Total U.S. Department of Justice</i>				<u>3,089,592</u>

* Denotes major program.

** Program expenditure is net of local match requirement.

CFDA—Catalog of Federal Domestic Assistance

N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	Federal Expenditures
U.S. Department of Transportation				
Federal Aviation Administration				
Airport Improvement Program, Direct Program				
AIP-40 FF02 D	20.106		DTFA08-02-C-31274	\$ 4,824
AIP-43 FF03	20.106		DTFA08-03-C-31415	756,490
AIP-44 FF03	20.106		DTFA08-03-C-31437	22,763
AIP-45 FF04	20.106		DTFA08-04-C-31476	1,326,303
AIP-46 FF04	20.106		DTFA08-04-C-31473	820,597
AIP-47 FF05	20.106		DTFA08-05-C-31573	865,673
AIP-48 FF05	20.106		DTFA08-05-C-31585	3,833,443
AIP-49 FF06	20.106		DTFA08-06-C-31718	153,293
AIP-50 FF06	20.106		DTFA08-06-C-31686	105,116
AIP-08 FF03	20.106		DTFA08-03-C-31417	139,757
AIP-09 FY04	20.106		DTFA08-03-C-31470	46,706
AIP-10 FY05	20.106		DTFA08-05-C-31592	52,860
AIP-11 FY06	20.106		DTFA08-06-C-31729	151,164
AIP-12 FY06	20.106		DTFA08-06-C-31730	111,460
Total Direct FAA Program				<u>8,390,449</u> **
Federal Highway Administration, Pass-through Program				
Highway Planning and Construction	20.205*	CA Department of Transportation	Master Agreement 06-5060	<u>9,220,297</u>
Total Pass-through FHA Program				<u>9,220,297</u> **
Federal Transit Administration, Federal Transit Cluster				
Federal Transit Capital Investment Grants, Direct Program				
FY05 Urban Mass Transportation Capital, CMAQ	20.500*		CA-90-Y385	134,487
FY06 Urban Mass Transportation Capital, CMAQ	20.500*		CA-90-Y504	1,489,000
FY07 Urban Mass Transportation Capital, CMAQ	20.500*		CA-95-X038	1,133,500
Subtotal Direct FTA Cluster Program				<u>2,756,987</u>

* Denotes major program.

** Program expenditure is net of local match requirement.

CFDA—Catalog of Federal Domestic Assistance

N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	Federal Expenditures
U.S. Department of Transportation, Continued				
Federal Transit Administration, Federal Transit Cluster				
Federal Transit Formula Grants, Direct Program				
FY98 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-X892-00	\$ 78,947
FY99 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-X974-00	1,720
FY00 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-Y021-00	57,234
FY01 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-Y103-00	7,759
FY02 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-Y137-01	10,685
FY03 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-Y229-00	13,687
FY04 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-Y309-00	89,213
FY05 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-Y367-00	2,053,539
FY06 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-Y494-00	105,991
FY07 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507*		CA-90-Y595	7,107,503
Subtotal Direct FTA Cluster Program				<u>9,526,278</u>
Total Direct FTA Cluster Program				<u>12,283,265</u> **
National Highway Traffic Safety Administration				
State and Community Highway Safety, Pass-through Program				
Driving Impaired Motorist Enforcement	20.600	CA Office of Traffic Safety	AL0535	81,058
CA Seat Belt Compliance Campaign FY06	20.600	CA Office of Traffic Safety	IN61002	1,231
Seatbelt Awareness for Everyone (SAFE)	20.600	CA Office of Traffic Safety	OP0504	18,774
Illegal Street Racing	20.600	CA Office of Traffic Safety	PT0564	156,026
Help Eliminate Alcohol Re-offender Team (HEART)	20.600	CA Office of Traffic Safety	AL0536	294,315
Selective Traffic Enforcement Program (STEP)	20.600	CA Office of Traffic Safety	PT0711	345,227
Click It or Ticket	20.600	CA Office of Traffic Safety	CT071001	89,162
UC Sobriety Checkpoint Program FY07	20.600	CA Office of Traffic Safety	SC071001	134,900
Total Pass-through NHTSA Program				<u>1,120,693</u>

* Denotes major program.

** Program expenditure is net of local match requirement.

CFDA—Catalog of Federal Domestic Assistance

N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	Federal Expenditures
U.S. Department of Transportation, Continued				
Office of the Secretary, Direct Program				
Payments for Small Community Air Service Development (Pilot Program)	20.930		OST-2003-15065-47	\$ 142,044
Total Direct OS Program				<u>142,044</u> **
	<i>Total U.S. Department of Transportation</i>			<u>31,156,748</u>
U.S. Department of Environmental Protection Agency				
Office of Air and Radiation				
Survey, Studies, Investigation, Demonstrations and Special Purpose Activities related to Clean Air Act, Direct Program				
Diesel Exhaust After-Treatment Demonstration Project	66.034		XA960411010	83,250
Total Direct OAR Program				<u>83,250</u> **
Office of Water				
Surveys, Studies, Demonstrations and Special Purpose Grants - Section 1442 of the Safe Drinking Water Act, Direct Program				
Water Infrastructure - Surface Water Treatment Facility Supply Pipeline	66.424		XP-96960901-0	63,442
Total Direct OW Program				<u>63,442</u> **
Office of Solid Waste and Emergency Response				
Solid Waste Management Assistance Grants, Direct Program				
Green Building	66.808		X1-96953401	17,513
Total Direct OSWER Program				<u>17,513</u>
	<i>Total U.S. Department of Environmental Protection Agency</i>			<u>164,205</u>
U.S. Department of Health and Human Services				
Office of the Secretary, Direct Program				
2003/2006 Medical Reserve Corps Small Grant Program	93.008		MRCSG020034-03-2	28,544
Total Direct OS Program				<u>28,544</u>
Administration on Aging				
Special Programs for the Aging-Title III, Part C - Nutrition Services, Pass-through Program				
Senior Hot Meals on Wheels	93.045	Fresno/Madera Area Agency on Aging	FY07	50,574
Total Pass-through AOA Program				<u>50,574</u>

* Denotes major program.

** Program expenditure is net of local match requirement.

CFDA—Catalog of Federal Domestic Assistance

N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	Federal Expenditures
U.S. Department of Health and Human Services, Continued				
Administration for Children and Families, Pass-through Program				
Mentoring Children of Prisoners (One by One/ PAL)	93.616	Fresno Leadership Foundation	90CV0081/01	\$ 65,558
Total Pass-through ACF Program				<u>65,558</u>
<i>Total U.S. Department of Health and Human Services</i>				<u>144,676</u>
U.S. Department of Homeland Security				
State Domestic Preparedness Equipment Support Program, Pass-through Program				
FY04 Homeland Security Grant	97.004	Fresno County Office of Emergency Services	2004-45	71,740
FY05 Homeland Security Grant	97.004	Fresno County Office of Emergency Services	HSG05	638,102
FY06 Homeland Security Grant	97.004	Fresno County Office of Emergency Services	2006-0071	86,925
FY06 Homeland Security Grant	97.004	Fresno County Office of Emergency Services	FY06	328,899
Total Pass-through Homeland Security Program				<u>1,125,666</u>
Urban Area Security Initiative, Pass-through Program				
FY04 Urban Area Security Initiative	97.008*	Governor's Office of Emergency Services	2004-14	3,961,581
FY04 Urban Area Security Initiative	97.008*	Governor's Office of Emergency Services	2004-TU-T4-0014	620,349
Total Pass-through UASI Program				<u>4,581,930</u>
Assistance to Firefighters Grant, Pass-through Program				
Fire Discipline 2004 Homeland Security Grant	97.044	Fresno County Office of Emergency Services	FY04 SHSP	28,052 **
Fire Discipline 2005 Homeland Security Grant	97.044	Fresno County Office of Emergency Services	2005	282,773 **
FY04 Fire Prevention and Safety Program	97.044	Fresno County Office of Emergency Services	EMW-2004-FP-00918	54,583 **
FY05 Fire Prevention and Safety Program	97.044	Fresno County Office of Emergency Services	EMW-2005-FP-00862	389,481 **
Total Pass-through Assistance to Firefighters Program				<u>754,889</u>
Citizen Corps, Pass-through Program				
Americorp	97.053	Governor's Office on Service and Volunteerism	EMF-2003-GR-0315	(21,313)
Total Pass-through Citizen Corps Program				<u>(21,313)</u>
Total Pass-through DHS Program				<u>6,441,172</u>

* Denotes major program.

** Program expenditure is net of local match requirement.

CFDA—Catalog of Federal Domestic Assistance

N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
Year Ended June 30, 2007

Federal Grantor/Pass-through Grantor/Program and/or Project Title	Federal CFDA Number	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	Federal Expenditures
U.S. Department of Homeland Security, Continued				
Metropolitan Medical Response System, Direct Program				
FY04 Metropolitan Medical Response System	97.071		EMW-2004-GR-0640	\$ 88,901
FY05 Metropolitan Medical Response System	97.071		MMRS05	69,476
FY06 Metropolitan Medical Response System	97.071		2006-0071	121,935
Total Direct MMRS Program				<u>280,312</u>
Buffer Zone Protection Plan (BZPP), Direct Program				
Buffer Zone Protection	97.078		2005-GR-TS-0068	177,100
Total Direct BZPP Program				<u>177,100</u>
Staffing for Adequate Fire and Emergency Response (SAFER), Direct Program				
FY05 SAFER	97.083		EMW-2005-FF-02473	350,580 **
FY06 SAFER	97.083		EMW-2006-FF-03625	167,670 **
Total Direct SAFER Program				<u>518,250</u>
Total Direct DHS Program				<u>975,662</u>
			<i>Total U.S. Department of Homeland Security</i>	<u>7,416,834</u>
Total expenditures of federal awards				<u>\$ 60,725,885</u>

* Denotes major program.

** Program expenditure is net of local match requirement.

CFDA—Catalog of Federal Domestic Assistance

N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
Year Ended June 30, 2007

State or Local Grantor/Program and/or Project Title	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	State Expenditures
CA State Department of Conservation—Division of Recycling, Community Outreach Branch, Direct Program			
2005/2006 Recycling Program		2005/2006	\$ 60,171
2006/2007 Recycling Program		2006/2007	111,266
<i>Total CA Dept of Conservation</i>			<u>171,437</u>
CA State Environmental Protection Agency—CA Integrated Waste Management Board, Direct Program			
06/07 Used Motor Oil Block Grant—11th Cycle		UBG11-05-100	119,959
2004/2005 Waste Tire Enforcement Program		TEA11-04-9	6,666
2005/2006 Waste Tire Enforcement Grants		TEA12-05-17	144,033
2004/2005 Local Gov't Waste Tire Cleanup Matching Grant		TCU12-04-2	51,379
2003/2004 Local Tire Amnesty Day Grant		TR43-04-18	410
2005/2006 Waste Tire Cleanup & Amnesty Event Grant (CG02)		TCA1-05-1	41,134
2005/2006 Waste Tire Cleanup & Amnesty Event Grant (CG04)		TCA1-05-1	17,133
<i>Total CA Environmental Protection Agency</i>			<u>380,714</u>
CA State Department of Finance, Direct Program			
2006 CA Supplemental Law Enforcement Service Program		FY05/06	308,671
2007 CA Supplemental Law Enforcement Service Program		FY06/07	405,396
<i>Total CA Department of Finance</i>			<u>714,067</u>
CA State Department of Fish and Game Wildlife Conservation Board, Direct Program			
San Joaquin River Parkway L. Eaton Trail		WC-1032SW	6,942
San Joaquin River Parkway Friant Road		WC-2043TC	127,576
<i>Total CA Department of Fish and Game</i>			<u>134,518</u>
CA State Department of Health Services, Direct Program			
Kids' Plates		53558-CP1356780521 -3SKO	6,500
<i>Total CA Department of Health Services</i>			<u>6,500</u>

* Denotes major program.

** Program expenditure is net of local match requirement.

CFDA—Catalog of Federal Domestic Assistance

N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
Year Ended June 30, 2007

State or Local Grantor/Program and/or Project Title	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	State Expenditures
CA State Department of Housing and Community Development, Direct Program			
Community Code Enforcement Incentive Program		02-CEGP-8	\$ 5,761
CalHome Mortgage Assistance		03-CALHOME-010	296,351
CalHome Mortgage Assistance		04-CALHOME-096	964,264
CalHome Rehab		05-CALHOME-133	279,972
<i>Total CA Dept of Housing and Community Development</i>			<u>1,546,348</u>
CA State Department of Parks and Recreation—The Resources Agency, Direct Program			
Murray-Hayden Program - 2000 Bond Act		C2009603	3,956
Per Capita Grant Program 2003		C0207067	163,995
Roberti-Z'berg-Harris Urban Open Space & Recreation Block Grant 2002		C2009038	538,431
State Urban Parks & Healthy Communities		PH10001	91,377
<i>Total CA Department of Parks and Recreation</i>			<u>797,759</u>
CA State Office of Emergency Services (OES), Pass-through Program			
CA Multi-Jurisdictional Methamphetamine Enforcement Teams FY07	County of Fresno	06-125	215,335
<i>Total CA State Office of Emergency Services</i>			<u>215,335</u>
CA State Department of Transportation Aeronautics Program of the CA Transportation Commission, Direct Program			
AIP - State match to Fed Proj #3-06-0088-08		Fre-2-04-1A&B-Mat	8,531
AIP - State match to Fed Proj #3-06-0088-09		Fre-2-04-2-Mat	2,692
AIP - State match to Fed Proj #3-06-0088-10		Fre-2-05-1-Mat	2,487
AIP - State match to Fed Proj #3-06-0088-11		Fre-2-06-1-Mat	3,556
AIP - State match to Fed Proj #3-06-0088-12		Fre-2-06-2-Mat	2,787
Total Direct CTC Program			<u>20,053</u>
Division of Local Transportation Assistance, Direct Program			
Highway Research, Planning & Construction Program [State Portion]		Master Agreement 06-5060	45,421
Total Direct DOT Program			<u>45,421</u>
<i>Total CA Department of Transportation</i>			<u>65,474</u>

* Denotes major program.

** Program expenditure is net of local match requirement.

CFDA—Catalog of Federal Domestic Assistance

N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

City of Fresno

Schedule of Expenditures of Federal and State Awards, Continued
Year Ended June 30, 2007

State or Local Grantor/Program and/or Project Title	Pass-through Grantor	Pass-through Entity Identifying Number or Grant Number	State Expenditures
CA 911 Emergency Communications Office, Direct Program 911 Communication Center		911	\$ 62,567
<i>Total CA 911 Emergency Communications Office</i>			<u>62,567</u>
CA State Department of Forest & Fire Protection, Direct Program Urban Forest Program		8CA04118	21,621
<i>Total CA State Department of Forest & Fire Protection</i>			<u>21,621</u>
CA Transportation Commission, Direct Program Santa Fe Station Parking Lot Project		75A0233	47,393
<i>Total CA Transportation Commission</i>			<u>47,393</u>
CA State Department of the Youth Authority, Pass-through Program Dickey Playground Youth Development Center	<i>Chicano Youth Center</i>	99-261-A1	253,663
<i>Total CA State Department of the Youth Authority</i>			<u>253,663</u>
LOWES, Direct Program Camp Fresno		Lowes	8,999
<i>Total LOWES</i>			<u>8,999</u>
Pacific Forest & Watershed Lands Stewardship Council, Direct Program Fresno Mobile Recreation Vehicle		MID06SCF	45,000
<i>Total PFWLSC</i>			<u>45,000</u>
San Joaquin Valley Unified Air Pollution Control District, Direct Program Remove II - Electronic Mobility Component Remove II - Reduce Emissions from Motor Vehicles		R-013 R-049	4,681 14,058
<i>Total SJV Unified Air Pollution District</i>			<u>18,739</u>
Total expenditures of state awards			<u>4,490,134</u>
Total expenditures of federal and state awards			<u>\$ 65,216,019</u>

* Denotes major program.

** Program expenditure is net of local match requirement.

CFDA—Catalog of Federal Domestic Assistance

N/A—Not applicable and/or available

See Notes to Schedule of Expenditures of Federal and State Awards.

Notes to Schedule of Expenditures of Federal and State Awards

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards (the Schedule) presents the activity of all federal and state award programs of the City of Fresno, California (the City). The Schedule includes federal awards received directly from federal agencies, as well as federal awards passed through from other agencies. The City's reporting entity is defined in Note 1 to the City's basic financial statements. Because the Schedule presents only a selected portion of the operations of the City, it is not intended to, and does not, present the financial position of the City.

The accompanying Schedule is presented on the modified-accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

In addition, the Schedule reflects certain adjustments resulting from grant close-outs and transfers of expenditures between grants. As a result, certain grants could show negative expenditures.

Note 2. Subrecipients

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

Program Title Provided	Federal CFDA Number	Amount
Community Development Block Grant Entitlement Program	14.218	\$ 286,420
Emergency Shelter Grants	14.231	296,252
HOME Investment Partnership Program	14.239	3,517,253

Note 3. Section 108 Loans

The City has four Section 108 loans, three of which are outstanding at June 30, 2007. Semiannual payments on these Section 108 loans are made from interest earned on the investments of the unspent restricted loan proceeds and from Community Development Block Grant Entitlement funds, and are included in the federal expenditures for the Community Development Block Grant on the Schedule. Principal and interest payments on all four loans totaled \$759,813 for the year ended June 30, 2007, of which \$216,012 was paid from Community Development Block Grant funds.

Notes to Schedule of Expenditures of Federal and State Awards

Note 3. Section 108 Loans, Continued

As of June 30, 2007, there was \$272,136 of unspent Section 108 loan proceeds remaining. A summary of Section 108 loans outstanding as of June 30, 2007 is as follows:

CFDA #	Grant Loan Program	Unspent Loan Proceeds as of June 30, 2007	Outstanding Loan Balances as of June 30, 2007
14.218	Section 108 Note, Fresno Pacific Towers	\$ 283	\$ -
14.218	Section 108 Note, Regional Medical Center	271,853	2,150,000
14.218	Section 108 Note, Fresno-Madera Area Agency on Aging	-	1,165,000
14.218	Section 108 Note, Neighborhood Streets/Parks	-	1,334,000
		<u>\$ 272,136</u>	<u>\$ 4,649,000</u>

Notes to Schedule of Expenditures of Federal and State Awards

Note 4. Office of Criminal Justice Planning Disclosures

The following schedule represents the detail of expenditures for each Office of Criminal Justice Planning program for the year ended June 30, 2007:

	Federal/ State Match	Local Match	Total
Juvenile Accountability Incentive Block Grant:			
Grant Award Number CSA101-06:			
Personal services	\$ 14,823	\$ 1,647	\$ 16,470
Operating expenses	-	-	-
Equipment	-	-	-
	<u>\$ 14,823</u>	<u>\$ 1,647</u>	<u>\$ 16,470</u>
Violence Against Women Law Enforcement:			
Specialized Units Program—Grant Award Number LE05036675:			
Personal services	\$ -	\$ 10,579	\$ 10,579
Operating expenses	31,735	-	31,735
Equipment	-	-	-
	<u>\$ 31,735</u>	<u>\$ 10,579</u>	<u>\$ 42,314</u>
Violence Against Women Law Enforcement:			
Specialized Units Program—Grant Award Number LE06046675:			
Personal services	\$ -	\$ 31,900	\$ 31,900
Operating expenses	95,701	-	95,701
Equipment	-	-	-
	<u>\$ 95,701</u>	<u>\$ 31,900</u>	<u>\$ 127,601</u>
California Multi-Jurisdictional Methamphetamine:			
Enforcement Teams Program—Grant Award Number 06-125:			
Personal services	\$ 215,335	\$ -	\$ 215,335
Operating expenses	-	-	-
Equipment	-	-	-
	<u>\$ 215,335</u>	<u>\$ -</u>	<u>\$ 215,335</u>
Grand totals for the Office of Criminal Justice Planning:			
Pass-through Programs:			
Personal services	\$ 230,158	\$ 44,126	\$ 274,284
Operating expenses	127,436	-	127,436
Equipment	-	-	-
	<u>\$ 357,594</u>	<u>\$ 44,126</u>	<u>\$ 401,720</u>

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*

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

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 of Fresno, California, (the City) as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 31, 2008. We did not audit the financial statements of the Redevelopment Agency of the City of Fresno (the Agency), a blended component unit of the City which represents approximately 5.4%, -10.0% and 7.0%, respectively, of the assets, net assets and revenues of the governmental activities, and we did not audit the financial statements of the City of Fresno Employees Retirement System and the City of Fresno Fire and Police Retirement System (collectively, the Retirement Systems), blended component units of the City, which represent 90.5%, 94.1% and 61.7%, respectively, of the assets, net assets and revenues of the City's aggregate remaining fund information. The financial statements of the Agency and the Retirement Systems were audited by other auditors, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Agency and the Retirement Systems of the City, are based on the reports of the other auditors. 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 opinion 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 would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency 2007-1 described in the accompanying schedule of findings and questioned costs to be a significant deficiency in internal control over financial reporting. We also consider item 2006-1 as described in the Summary Schedule of Prior Year Audit Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider item 2006-1 noted above to be a material weakness.

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*.

We noted certain matters that we reported to management of the City in a separate letter dated January 31, 2008.

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

McGladrey & Pullen, LLP

Riverside, California
January 31, 2008

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal and State Awards

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

Compliance

We have audited the compliance of the City of Fresno, California, (the City) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. 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 on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be both a significant deficiency and a material weakness.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying Summary Schedule of Prior Year Audit Findings as item 2006-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control. We consider the significant deficiency in internal control over compliance as described above to be a material weakness.

The City's response to the finding identified in our audit is described in the accompanying Summary Schedule of Prior Year Audit Findings. We did not audit the City's response and, accordingly, we express no opinion on it.

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 of Fresno, California, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 31, 2008. We did not audit the financial statements of the Redevelopment Agency of the City of Fresno (the Agency), a blended component unit of the City, which represents approximately 5.4%, -10.0% and 7.0%, respectively, of the assets, net assets and revenues of the governmental activities, and we did not audit the financial statements of the City of Fresno Employees Retirement System and the City of Fresno Fire and Police Retirement System (collectively, the Retirement Systems), blended component units of the City which represent 90.5%, 94.1% and 61.7%, respectively, of the assets, net assets and revenues of the City's aggregate remaining fund information. The financial statements of the Agency and the Retirement Systems were audited by other auditors, whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Agency and the Retirement Systems of the City, are based on the reports of the other auditors. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal and state 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.

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

McGladrey & Pullen, LLP

Riverside, California
January 31, 2008

Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

I. Summary of Independent 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 weakness(es)? X Yes None Reported
- Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major program:

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

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

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

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grants/Entitlement Grants
20.205	Highway Planning and Construction
20.500 & 20.507	Federal Transit Capital Investment and Formula Grants Cluster
97.008	Urban Areas Securities Initiative

Dollar threshold used to distinguish between type A and type B programs: \$ 1,821,777

- Auditee qualified as low-risk auditee? Yes X No

II. Financial Statement Findings

A. Significant Deficiency

2007-1—Accounts Payable and Retention Payable for Construction Projects

Condition: A liability related to services rendered for a wastewater construction project, including retention, as of June 30, 2007 was not properly accrued for at fiscal year end, which resulted in an audit adjustment. The City did not capture this liability during the City's year-end search for unrecorded liabilities due to payment made through wire transfer, and the City's procedures only capture liabilities paid via check.

Criteria: *AICPA Audit and Accounting Guide for Local and State Governments*, Chapter 8, Paragraph 10, states that "The ..., proprietary fund, ... financial statements use the economic resources/accrual MFBA. ... Because of the accrual basis of accounting, expenses resulting from exchange and exchange-like transactions are recognized when the exchange takes place; expenses ..." In the aforementioned condition, the exchange occurred before June 30, 2007; therefore, the liability should have been accrued as of June 30, 2007. In addition, wastewater activities are recorded under enterprise fund; therefore, the retention payable related to the construction project should have been accrued as of June 30, 2007 as well.

Recommendation: We recommend the City revise the policies and procedures in capturing year-end accruals and ensure disbursements through wire transfer for construction projects are also reviewed and accounted for properly.

City Response: The City wholeheartedly agrees that all disbursements must be captured and all liabilities properly accrued, and that current procedures involving the processing of wire transfers and other electronic payments is antiquated allowing payments to circumvent the accounts payable process and the built-in controls of checks and balances. The City is currently drafting procedures to revamp and automate the processing of not only wire transfers but all electronic payments, as this method of payment is poised to become a very significant portion, if not a majority, of the City's disbursements. The City expects to realize significant financial savings by embracing this technology, when the current method of paper check writing is replaced, to a large extent, by electronic payments. In the course of adopting these changes, the City plans to ensure that all disbursements are initiated through the accounts payable voucher process, so purchase orders are relieved, budget controls function properly, liabilities for retention payable are captured, and queries of payments and vendors pull all disbursements made by any method, electronic or check. The City is highly committed to strong internal controls and realizes that any disbursement allowed to be made outside the accounts payable system and requiring a manual journal entry to process, and alternative queries to capture, is contrary to goals of basic safeguarding of assets, as well as contrary to goals of efficient document processing. While the initial set-up of these procedures in the PeopleSoft Accounting Module is a major change, the financial savings to be reaped more than offset the costs involved. Financial benefits aside, the City's primary concern is adherence to policies of internal control, and those concerns dictate the adoption of changes in methods for electronic payment processing.

B. Compliance Finding(s)

None reported.

III. Findings and Questioned Costs for Federal Awards

A. Significant Deficiencies

See 2006-1 in the Summary Schedule of Prior Year Audit Findings.

B. Compliance Finding(s)

None reported.

Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2007

The following was a significant deficiency that was reported as a material weakness at June 30, 2006 at the Financial Statements level and Federal Awards level.

2006-1—Inventory and Valuation of Capital Assets

Criteria: The A-102 Common Rule, applicable to state and local governments, requires that capital assets be used in the federal program for which it was acquired or, when appropriate, other Federal programs. Capital assets records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the capital assets records, an appropriate control system shall be used to safeguard capital assets, and capital assets shall be adequately maintained.

Condition: In our letter to management for the fiscal years ended June 30, 2004 and 2005, we reported that the City does not consistently perform an inventory of all capital assets owned. Per review of Administrative Order 1-3, each City department is responsible for coordinating a physical inventory of capital assets every four years. With the advent of Governmental Accounting Standards Board (GASB) Statement No. 34, there is an increased emphasis on capital asset accounting and the need to verify asset existence through periodic inventory.

The City's Internal Audit function conducted a comprehensive assessment of the City's capital asset processes and compliance with Administrative Order 1-3. This assessment consisted of evaluating the effectiveness and efficiency of the current capital assets processes, the reliability of the information provided by the City's various departments to the Finance Department, and the City's compliance with applicable policies, procedures, laws and regulations. The Internal Audit function released its report in July 2006 and identified numerous findings along with recommendations to remedy these findings. City management responded to each of the findings and recommendations, and these responses are incorporated in the internal Audit report.

In addition, the Fresno Yosemite International Airport, an enterprise fund of the City, performed a comprehensive valuation and completeness analysis of all capital assets owned. This analysis revealed there were errors in past reporting of Airport capital assets resulting in an adjustment (addition) to the financial statements of approximately \$5.8 million for capital assets and a corresponding \$2.1 million adjustment (addition) to related accumulated depreciation for a net adjustment, or increase, of \$3.7 million.

Cause: The City's noncompliance with the provisions of the A-102 Common rule is due to the following factors: (1) currently operating under an outdated policy on the inventory of capital assets, (2) inconsistencies in the recording, tracking and proper disposal of City capital assets, (3) communication gaps between the Finance Department and all other City departments regarding the oversight of the capital asset recording process and (4) the Finance Department's difficulty in reconciling capital assets data with data from other City departments.

Effect: Improper recording and tracking of capital assets may affect the accuracy of capital assets recording and reporting, result in misstated financial statements, and possible noncompliance with federal and state regulations.

Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2007

Recommendation: We recommend that City management work as expeditiously as possible to implement the recommendations in the Internal Audit report of July 2006. Implementation of these recommendations should not be a multiyear task. A timeline for implementation with specified key milestones or benchmarks for measuring progress should be established. This timeline, including key milestones, should be communicated to and frequently updated with the Mayor and City Council. The City's internal audit function should monitor implementation.

City response: Since fiscal year 2002 and the implementation of GASB 34, the City of Fresno has worked diligently and has made great strides toward not only identifying areas of weakness with respect to internal controls surrounding fixed assets, but also minimizing these risks and taking corrective actions to tighten weak controls. Subsequent to the June 2004 audit, Finance engaged the services of Internal Audit to perform a citywide analysis of fixed asset processes in order to determine the areas of greatest risk and identify those departments with the greatest exposure. This was done so that areas with the greatest risk could be targeted first and limited resources could be concentrated in areas where exposure was the greatest.

From planning to final completion, this audit encompassed well over twelve months worth of Internal Audit and Finance Department combined effort. The result was a comprehensive analysis of specific areas in need of correction. The audit was finalized in May 2006 and prior to, but most definitely since that time, Finance has worked tirelessly not only on an extensive plan of corrective action, but has also implemented many of the recommendations suggested by Internal Audit.

Like many other cities, one of the biggest challenges has been the education process for many departments. GASB 34 completely changed the way municipalities account for fixed assets. Each year since GASB 34, Finance has been conducting training sessions for City departments to familiarize them with and reinforce the requirements of GASB 34. Each session has included the five essential framework elements of internal control: (1) establish and maintain a sound control environment; (2) ensure regular, ongoing assessment of risk; (3) design, implement and maintain control-related policies and procedures to compensate for the identified risks; (4) ensure adequate communication; and (5) establish or enhance regular, ongoing monitoring of control related policies and procedures.

Finance takes the oversight of the City's fixed assets quite seriously and has and will continue to make every effort to ensure that the City's assets are properly recorded, safeguarded and accounted for. To this end, the Finance Department, in preparation for the City's June 30, 2007 year-end audit, formed fixed asset observation teams consisting of no less than two individuals from Finance on each team, which were dispatched to all departments to assist with fixed asset observations. Due to the number of assets scattered throughout the City in 18 different departments, the observation of all assets was not possible and, as such, stratification of the fixed asset population was necessary. Materiality was the first stratifying element in the asset selection process. Last year, the City reported nearly \$1.7 billion in fixed assets in its government-wide financial statements. The listing of fixed assets from the PeopleSoft Fixed Asset Module was run and all assets with a historical cost of \$1 million or more was selected for inclusion in the pool of assets to be selected for observation purposes. Every 12th asset from that listing with a historical cost of \$10,000 or greater was then selected for inclusion in the observation process. This selection resulted in approximately 1,100 assets to be observed and their existence verified. Those departments with assets below those parameters were tested separately.

Asset observations began the week of May 29th and continued well into the summer. Teams located assets, verified their existence and made an assessment of the condition of the asset, including the expected remaining asset life. This information was compared to the data recorded in PeopleSoft. Individual asset sheets were prepared for each asset observed. Where appropriate, more detailed information or more descriptive information was obtained with respect to the assets themselves or the asset location. Pictures were also taken of the assets to

Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2007

document their current condition. Where an asset consisted of multiple parts or locations (for example, police video cameras) one camera was located along with the control console and a picture was taken of the console and one camera. The Police Department was then required to sign off on the asset inventory sheet that all cameras still exist and are in working order. Where assets had been disposed of and should have been removed from the fixed asset listing, FA91 forms were requested.

Where asset lives need to be adjusted due to the condition of the assets as observed, this too was reflected on the individual asset observation sheets for modification of the PeopleSoft Fixed Asset Module. In the case of sewer and water lines, assets that are underground and cannot be photographed, Finance worked with the respective Utility Divisions and obtained maps, I-View, Front Counter or other electronic verification and representations from the appropriate Divisions that the assets are still in existence. These asset lives were also evaluated to 1) determine if it appeared reasonable that the assets could possibly still be in existence and 2) if the remaining asset life appears reasonable.

One of the recommendations made by Internal Audit was that fixed asset information gathered citywide be more consistent and more uniform in nature. This is certainly a goal of the Finance Department on a go forward basis, and where possible will be addressed retroactively as well. However, by no means is it feasible to go back and reenter each and every fixed asset item currently included in the Fixed Asset Module.

Various forms of asset information are needed by distinct and different user groups located throughout the City. Asset data needed by specific departments may or may not be identical to information needed by the Finance Department for financial reporting purposes. For example: the Streets Division may need to know not only the number and location of light standards located throughout the City, but also the component parts making up a light standard. This detailed information assists the Division in maintaining sufficient on hand inventory to insure that the lights remain fully functional. Finance for reporting purposes, focuses on the total count and cost of all complete fixtures at the end of each fiscal year. It must be understood that criteria established by Finance for financial reporting purposes may or may not be consistent or the same as specific or alternative needs of each of the individual departments. The new version of the PeopleSoft Fixed Asset Module provides for more user defined fields which will provide for expanded descriptive asset locations and more diverse asset information. In the case of land, land improvements, easements and right of ways, Finance is also asking that Assessors Parcel Numbers (APNs) or some other common identifier be used to assist in asset location and asset filtering needs in order to provide for and enable additional tools when searching for a particular asset.

In preparation for the close of Fiscal Year 2007, Finance conducted numerous meetings with all City Departments and Divisions regarding their fixed assets. Efforts were made to identify the issues that have been preventing the coordination of information flow, and to eliminate the confusion as to what level of information needs to be retained by Finance vs. the individual Departments themselves. Asset cost thresholds were also discussed and evaluated. Initially the intent had been to revise capitalization thresholds prior to July 1, 2007. However the decision was made to suspend any change in capitalization values until the completion of the 2007 inventory observation. Any changes that are recommended will take place as of July 1, 2008.

Once again during the course of the meeting and the observation of fixed asset inventory, each Department was queried about their processes of tracking their own fixed assets; criteria used for determining if an item is capitalized or not capitalized (i.e., sensitive assets). Finance inquired about what special reports and databases each department was using for tracking sensitive assets. Many departments are using Microsoft Excel or Access. For example, the Information Services Department tracks all of the City's computers in the Asset Management Module. Fleet tracks all of the City's vehicles in Fleet Anywhere with the exception of Fire trucks. Public Works does not have any equipment purchases; however, they have numerous and substantial infrastructure assets.

Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2007

Finance conducted a lengthy explanation of the Fixed Assets tagging procedure. City asset tags are maintained by the Citywide Property Monitor and are issued at the request of the individual department Property Monitors. Finance also presented and explained in detail the Fixed Assets Inventory Report which will be available to all Departments in the PeopleSoft "COF" Reports area. Finance is working with departments to gather information necessary to set up User IDs for Property Monitors who do not have access to the Asset Management database for viewing.

Detailed lists of the assets to be observed were provided to each Department/Division three days in advance of the inventory observation and Property Monitors were requested to review their fixed assets listing and update the location codes, notate assets no longer held. They were also asked to locate the assets to be observed. In addition, they were provided their complete asset listings and asked to add assets that might be missing from the lists.

Pursuant to a triennial audit of the Transit Department, performed by the Federal Transit Administration, a finding was made on the tracking of assets purchased with grant funds. Additional fields needed to be created to record the grant source number which funded the asset along with the Federal percentage, and how disposals were accounted for. A Use, Condition and Vested Title field was also added for tracking purposes. Finance worked with ISD to create a grant funding panel in the Asset Management database for tracking and reporting these grant funded assets.

All Departments were supplied with a comprehensive current listing of fixed assets as of June 30, 2007 and were asked to review these and notate necessary changes. The procedures for retiring assets and the requirements for completing a revised, more user-friendly Fixed Asset 91 Form (F/A 91) were discussed in detail. Finance requested that all departments review and return the list with a completed F/A 91 Form for disposal of fixed assets which are no longer in service.

Each Department/Division returned to Finance a listing of not only those assets that were retired in FY07, but also those assets that were impaired and any known assets that were missing. The Finance Department (CAFR Team) once again provided instructions for impaired assets and a form to facilitate the reporting of impaired assets.

To address issues with Public Works' infrastructure and right of way reporting, the Finance Department implemented a new system in which Public Works, at the time construction is implemented, provides specific required information related to cost and square footage data on a Finance Department designed on-line form. When the housing tracts are subsequently completed and the infrastructure is approved and accepted by the City, all necessary data is available and ready for inclusion on the Asset Management System. This greatly enhances and provides for complete reporting on infrastructure and easements.

As was noted last year, much of the ongoing analysis and determination of fixed assets on hand must be made by individual departments as it is impossible for a City the size and complexity of Fresno to assign this process to one Citywide Fixed Asset Monitor to oversee and physically inspect and account for the entire pool of assets for the City. Finance continues to engage the support of the City Managers' Office and Department Directors to cooperate and assist in the tracking of assets. Finance is and will continue working closely with each Department to coordinate and direct the efforts of their staff to enhance existing asset data as well as data provided on a go forward basis. By June 30, 2008, each department will be responsible for completing a fixed asset "audit" of all of their fixed assets. Department Directors will be required to "certify" by signing an asset audit certification letter that they have accounted for their assets and that they have met the requirements of the Fixed Asset AO.

Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2007

One setback encountered by Finance just subsequent to the June 30, 2007 fiscal year end, was the loss of the Citywide PeopleSoft Fixed Asset Module Lead. This position oversaw and coordinated the citywide fixed asset accounting. As of the first of December this position has once again been filled; however, delays in our fixed asset coordination efforts were nonetheless encountered. The individual hired will undergo extensive PeopleSoft Fixed Asset Module training in early 2008. In addition, three other staff members will be cross-trained in order to provide for back up. The plan is to once again focus on more extensive automation of the capturing and tracking of fixed asset costs. While the loss of this individual was a slight setback from where the City would have liked to have been with respect to making improvements in the area of the City's fixed assets, it by no means has lessened our commitment to strengthening the controls and oversight in this area.

Each department continues to work diligently with us to ascertain the completeness of their fixed asset listings and Finance will continue to engage with each Department to ensure that the momentum continues. Public Works and the Utilities Department (Sewer) are working to bring on line, a "Pavement Management System" (the Hansen system). A consultant has been hired to take pictures of all streets, curbs, gutters, street and traffic lights and various other items of infrastructure. These images can be loaded into the system and will provide a 360 panoramic view of these assets. The system will also complement I-View which provides location specific information such as addresses and APN numbers. This then lends itself to being able to obtain assessed values where material and useful. Key to the completion of this project will be the ongoing funding and allocation of sufficient resources. When completed, the system will enable better, more comprehensive and detailed tracking of infrastructure assets. This project, if funded appropriately in each year and staffed adequately, will take at least 12 to 18 months to fully implement this system.

Again, Finance emphasizes its wholehearted support and implementation of these processes and procedures and the need to assist in making this occur expediently. Realistically, resource availability, competing Administrative projects and current economic factors that are bound to impact our departmental budgets could and will significantly affect how quickly some of the process revisions are fully implemented. Finance will continue to work diligently to make enhancements to the systems, processes and procedures and will focus on those areas with the greatest risk of exposure.

For fiscal year 2008 the observation and verification work will continue and departments will be trained in these observation procedures as well so that in the future, observations and verifications can be expedited.

Independent Accountant's Report on Applying Agreed-upon Procedures

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

We have performed the procedures enumerated below to the accompanying Appropriations Limit Calculation of the City of Fresno, California, (the City) for the year ended June 30, 2007. These procedures, which were agreed to by the City and the League of California Cities (as presented in the publication entitled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII-B of the California Constitution*), were performed solely to assist the City in meeting the requirements of Section 1.5 of Article XIII-B of the California Constitution. The City's management is responsible for the Appropriations Limit Calculation.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and our findings were as follows:

1. We obtained the completed internal calculations and compared the limit and annual adjustment factors included in those calculations to the limit and annual adjustment factors that were adopted by a resolution of the City Council. We also compared the population and inflation options included in the aforementioned calculations to those that were selected by a recorded vote of the City Council.

Finding: No exceptions were noted as a result of our procedures.

2. For the accompanying Appropriations Limit Calculations, we added line A, last year's limit, to line E, total adjustments, and compared the resulting amount to line F, this year's limit.

Finding: No exceptions were noted as a result of our procedures.

3. We compared the current year information presented in the accompanying Appropriations Limit Calculation to the supporting calculations described in item 1 above.

Finding: No exceptions were noted as a result of our procedures.

4. We compared the prior year appropriations limit presented in the accompanying Appropriations Limit Calculation to the prior year appropriations limit adopted by the City Council during the prior year.

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the accompanying Appropriations Limit Calculation of the City. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. No procedures have been performed with respect to the determination of the appropriation limit for the base year, as defined by Article XIII-B of the California Constitution.

This report is intended solely for the information and use of the Mayor, City Council, Audit Committee and management of the City, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

McGladrey & Pullen, LLP

Riverside, California
January 31, 2008

City of Fresno

Appropriations Limit Calculation
Year Ended June 30, 2007

	Amount	Source
A. Last Year's Limit	<u>\$ 346,181,247</u>	
B. Adjustment Factors:		
1. Population change	1.01452896	State Finance
2. Per capita income change	<u>1.03960000</u>	State Finance
Total adjustment	<u>0.05470431</u>	(B.1. x B. 2.) - 1.0
C. Annual Adjustment	<u>18,937,606</u>	(BxA)
D. Other Adjustments:		
1. Lost responsibility (-)	-	
2. Transfer to private (-)	-	
3. Transfer to fees (-)	-	
4. Assumed responsibility (+)	-	
Subtotal	<u>-</u>	(D1+D2+D3+D4)
E. Total Adjustments	<u>18,937,606</u>	(C+D)
F. This Year's Limit	<u><u>\$ 365,118,853</u></u>	(A+E)