

CITY OF FRESNO
Single Audit Reports
For the Year Ended June 30, 2010

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For the Year Ended June 30, 2010

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The Honorable City Council
of the City of Fresno, California

**Independent Auditor’s Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

We have audited the financial statements of the governmental activities, business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Fresno, California (City), as of and for the year ended June 30, 2010, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated March 23, 2011. Our report modified to include reference to other auditors. Our report also contained an explanatory paragraph describing the City’s adoption of the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, and GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective July 1, 2009. 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. Other auditors audited the financial statements of the City of Fresno Redevelopment Agency, the City of Fresno Employees Retirement System, and the City of Fresno Fire and Police Retirement System, as described in our report on the City’s financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as described in findings 10-01 and 10-02. 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.

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 other matters that we reported to management of in a separate letter dated March 23, 2011.

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 response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Council, others within the entity, and the City's 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.

A handwritten signature in black ink that reads "Macias Fini & O'Connell LLP". The signature is written in a cursive, flowing style.

Certified Public Accountants
Newport Beach, California

March 23, 2011

To the Honorable City Council
of Fresno, California

**Independent Auditor’s Report on Compliance with Requirements that
Could Have a Direct and Material Effect on Each Major Program, on
Internal Control Over Compliance and the Schedule of Federal Expenditures of
Federal Awards in Accordance with OMB Circular A-133**

Compliance

We have audited the City of Fresno, California (City) compliance with the types of compliance requirements described in *the OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended June 30, 2010. The City’s major 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 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 consider 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 with, in all material respects, with the compliance requirements referred to above that could have a direct and material effect each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclose an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133, and which is described in the accompanying schedule of findings and questioned costs as finding 10-03.

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 for compliance requirement of a federal program will not be prevented, or detect 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 a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as items 10-03. 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.

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on the responses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City as of and for the year ended June 30, 2010, and have issued our reported dated March 23, 2011. Other auditors audited the financial statements of the City of Fresno Redevelopment Agency, the City of Fresno Employees Retirement System, and the City of Fresno Fire and Police Retirement System, as described in our report on the City's financial statements. 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 the 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 management, the City Council, others within the entity, and the 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.



Certified Public Accountants
Newport Beach, California

March 30, 2011, except for the paragraph on the schedule of federal expenditures of federal awards, as to which the date is March 23, 2011.

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards
For the Year Ended June 30, 2010

<u>Federal Grantor/Program and/or Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor</u>	<u>Grant Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Commerce:				
Economic Development Administration - Direct Program				
Economic Adjustment Assistance Revolving Loan Fund	11.307		07-39-02434	\$ 2,809
		<u>Total Direct EDA Program</u>		<u>2,809</u>
Pass-through Program				
Public Safety Interoperable Communications Grant Program PSIC	11.555	CA Office of Homeland Security	2007-2008	575,834
Public Safety Interoperable Communications Grant Program PSIC (FY2010)	11.555	CA Office of Homeland Security	2007-2108	28,441
		<u>Total Pass-through US DOC Program</u>		<u>604,275</u>
TOTAL U.S. DEPARTMENT OF COMMERCE				607,084
U.S. Department of Housing and Urban Development:				
Entitlement Grants Cluster				
Community Development Block Grants / Entitlement Grants - Direct Program				
FY10 Community Development Block Grant	14.218		B-09-MC-06-001	8,033,994
FY09 Community Development Block Grant	14.218		B-08-MC-06-001	409,278
FY08 Community Development Block Grant	14.218		B-07-MC-06-001	117,649
FY05 Community Development Block Grant	14.218		B-04-MC-06-001	4,535
2010 Neighborhood Stabilization Program	14.218		B-08-MN-06-0003	8,524,063
		<u>Total Direct CDBG Program</u>		<u>17,089,519</u>
Community Development Block Grants Recovery - Direct Program				
ARRA: FY10 Community Development Block Grant - Recovery	14.253		B-09-MY-060001	1,471,924
		<u>Total Direct CDBG-R Program</u>		<u>1,471,924</u>
Total Entitlement Grants Cluster				18,561,443
Emergency Shelter Grants Program - Direct Program				
FY10 Emergency Shelter Grant	14.231		S-09-MC-06-001	241,852
FY09 Emergency Shelter Grant	14.231		S-08-MC-06-001	94,358
		<u>Total Direct ESG Program</u>		<u>336,210</u>

(Continued)

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2010

<u>Federal Grantor/Program and/or Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor</u>	<u>Grant Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Housing and Urban Development (cont):				
HOME Investment Partnerships Program - Direct Program				
FY10 HOME	14.239		M-09-MC-06-0204	241,163
FY09 HOME	14.239		M-08-MC-06-0204	29,998
FY08 HOME	14.239		M-07-MC-06-0204	998,715
FY07 HOME	14.239		M-06-MC-06-0204	25,026
FY05 HOME	14.239		R-04-MC-06-0204	318,600
FY04 HOME	14.239		R-03-MC-06-0204	651,587
		<u>Total Direct HOME Program</u>		<u>2,265,089</u>
EDI-Direct Program				
Community Development Block Grants/Brownfields Economic Development Initiative	14.246		B-03-SP-CA-0112	105,822
Community Development Block Grants/Brownfields Economic Development Initiative	14.246		B-04-NI-CA-0002	16,368
		<u>Total Direct EDI Program</u>		<u>122,190</u>
Homeless Prevention & Rapid Re-Housing - Direct Program				
ARRA: Homeless Prevention & Rapid Rehousing Program	14.257		S-09-MY-06-0001	542,886
		<u>Total Direct ARRA - HPRP Program</u>		<u>542,886</u>
Public Housing Capital Fund- Pass-through Program				
HUD Capital Funding Grant Program FY 09/10	14.872	Housing Authority of Fresno	FY 09/10	112,108
HUD Capital Funding Grant Program FY 08/09	14.872	Housing Authority of Fresno	FY 08/09	13,719
		<u>Total Pass-through HUD Program</u>		<u>125,827</u>
Office of Healthy Homes and Lead Hazard Control - Direct Program				
ARRA: 2009/2012 Lead-Based Paint Control	14.907		CALHB0433-08	472,732
		<u>Total Direct ARRA-OHHLHC</u>		<u>472,732</u>
TOTAL U.S. DEPT. HOUSING AND URBAN DEVELOPMENT				22,426,377
U.S. Department of Interior:				
Urban Park and Recreation Recovery - Pass-through Program				
Outdoor Recreation_Acquisition, Development and Planning	15.916	CA Department of Parks and Recreation	C8944015	33,300
		<u>Total Pass-through UPARR Program</u>		<u>33,300</u>
TOTAL U.S. DEPARTMENT OF INTERIOR				33,300
U.S. Department of Justice:				
Direct Program				
Department of Justice Seized Assets	16.000		Unknown	1,474,452
		<u>Total Direct DOJ Program</u>		<u>1,474,452</u>

(Continued)

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2010

<u>Federal Grantor/Program and/or Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor</u>	<u>Grant Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Justice (cont):				
Office of Justice Programs / National Institute of Justice - Direct Program				
National Institute of Justice Research, Evaluation & Development Project Grant (Cold Case DNA)	16.560		2005-DN-BX-K006	90,236
		<u>Total Direct NIJ Program</u>		<u>90,236</u>
Office of Justice Programs / Bureau of Justice Assistance - Direct Program				
Edward Bryne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		2007-DD-BX-0683	761,316
		<u>Total Direct BJA Program</u>		<u>761,316</u>
Office of Justice Programs - Pass-through Program				
ARRA: Violence Against Women Formula Grants	16.588	CA Emergency Management Agency	SU09016675	93,596
		<u>Total Pass-through ARRA - OJP Program</u>		<u>93,596</u>
Office of Justice Programs / Office of Weed and Seed - Pass-through Program				
Community Capacity Development Office	16.595	United Way of Fresno County	2008-WS-QX-0236	58,621
		<u>Total Pass-through OJP-OWS Program</u>		<u>58,621</u>
Office of Justice Programs / Bureau of Justice Assistance - Direct Program				
Bulletproof Vest Partnership Program FY10	16.607		FY 08/09	16,153
Bulletproof Vest Partnership Program FY09	16.607		FY 07/08	1,247
		<u>Total Direct BJA Program</u>		<u>17,400</u>
Office of Community Oriented Policing Services - Direct Program				
Public Safety Partnership and Community Policing Grants (COPS Meth)	16.710		2007CKWX0290	54,656
Public Safety Partnership and Community Policing Grants (COPS Technology)	16.710		2008CKWX0424	149,168
		<u>Total Direct COPS Program</u>		<u>203,824</u>
Office of Justice Programs / Office of Juvenile Justice and Delinquency Prevention - Pass- through Program				
Enforcing Underage Drinking Laws Program (ABC FY10)	16.727	CA Dept of Alcoholic Beverage Control	09MST11	646
		<u>Total Pass-through OJP-JDP Program</u>		<u>646</u>

(Continued)

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2010

<u>Federal Grantor/Program and/or Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor</u>	<u>Grant Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Justice (cont):				
Office of Justice Programs / Bureau of Justice Assistance - Direct Program				
Edward Byrne Memorial Justice Assistance Grant Program '06	16.738		2006-DJ-BX-0749	2,709
Edward Byrne Memorial Justice Assistance Grant Program '07	16.738		2007-DJ-BX-0161-5	184,683
Edward Byrne Memorial Justice Assistance Grant Program '08	16.738		2008-DJ-BX-0171	75,230
Edward Byrne Memorial Justice Assistance Grant Program '09	16.738		2009-DJ-BX-0171	87,577
		<u>Total Direct BJA Program</u>		<u>350,199</u>
National Institute of Justice - Pass-through Program				
Paul Coverdell Forensic Sciences Improvement Grant (CalGrip 08)	16.742	Office of Emrgy Svcs	GR0716675	98,802
		<u>Total Pass-through NIJ Program</u>		<u>98,802</u>
Office of Justice Programs / Bureau of Justice Assistance - Direct Program ARRA				
ARRA: Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Governments	16.804		2009-SB-B9-0686	852,209
		<u>Total Direct BJA Program</u>		<u>852,209</u>
Office of Community Oriented Policing Services - Direct Program ARRA				
ARRA: Edward Byrne Memorial Competitive Grant Program	16.808		2009RJWX0010	2,279,669
		<u>Total Direct ARRA COPS Program</u>		<u>2,279,669</u>
TOTAL U.S. DEPARTMENT OF JUSTICE				6,280,970
U.S. Department of Transportation:				
Federal Aviation Administration - Direct Program				
Airport Improvement Program - ARRA				
ARRA: AIP-57 FF09	20.106		3-06-0087-57	2,579,397
		<u>Total Direct ARRA FAA Program</u>		<u>2,579,397</u>
Airport Improvement Program - Non ARRA				
AIP-52 FF07	20.106		3-06-0087-52	357,693
AIP-53 FF08	20.106		3-06-0087-53	1,201,279
AIP-54 FF08	20.106		3-06-0087-54	338,110
AIP-55 FF08	20.106		3-06-0087-55	149,720
AIP-56 FF09	20.106		3-06-0087-56	9,094,861
AIP-58 FF09	20.106		3-06-0087-58	369,914
AIP-59 FF10	20.106		3-06-0087-59	1,755,318
AIP-12 FF06	20.106		DTFA08-06-C-31730	20,624
AIP-13 FF07	20.106		3-06-0088-13	15,870
AIP-14 FF07	20.106		3-06-0088-14	16,562
AIP-15 FF08	20.106		3-06-0088-15	33,771
AIP-16 FF09	20.106		3-06-0088-16	1,728,217
		<u>Total Direct FAA Non-ARRA Program</u>		<u>15,081,939</u>
		Total Airport Improvement Program		17,661,336
				(Continued)

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2010

<u>Federal Grantor/Program and/or Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor</u>	<u>Grant Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Transportation (cont):				
<i>Highway Planning and Construction Cluster</i>				
Federal Highway Administration - Pass-through Program				
Highway Research, Planning & Construction Program	20.205	CA State Department of Transportation	Master Agreement 06-5060	8,345,396
<u>Total Pass-through Non-ARRA FHA Program</u>				<u>8,345,396</u>
ARRA: Highway Research, Planning & Construction Program	20.205	CA State Department of Transportation	Master Agreement 06-5060	1,880,076
<u>Total Pass-through ARRA FHA Program</u>				<u>1,880,076</u>
Total Highway Planning and Construction Cluster				<u>10,225,472</u>
<i>Federal Transit Cluster</i>				
Federal Transit Capital Investment Grants - Direct Program				
FY04/05 Federal Transit Capital Investment Grant Bus Facility	20.500		CA-03-0693-00	46,505
FY05 Federal Transit Capital Investment Grant Fresno Bus Program -(6 paratransit, 1 forty ft hybrid bus)	20.500		CA-03-0794	606,553
<u>Total Direct FTA Program</u>				<u>653,058</u>
Federal Transit Administration - Direct Program				
Federal Transit - Formula Grants:				
ARRA: FY09 Grant #CA96X011	20.507		CA-96-X011	4,018,086
<u>Total Direct ARRA FTA Program</u>				<u>4,018,086</u>
Federal Transit Administration - Direct Program - Non-ARRA				
Federal Transit - Formula Grants:				
FY98 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-X892-00	117,587
FY99 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-X974-00	10,256
FY02 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y137-01	49,438
FY03 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y229-00	38,497
FY04 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y309-00	7,400
FY05 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y367-00	248,228
FY06 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y494-00	33,066
FY07 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y595-00	1,126
FY08 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y622-00	222,096
FY09 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y699-00	301,552
FY10 Urban Mass Transportation Capital, Planning, Operating Assistance	20.507		CA-90-Y794-00	5,928,438
FY05 Urban Mass Transportation Capital, CMAQ	20.507		CA-90-Y676	485,870
FY07/08 Urban Mass Transportation Capital, CMAQ	20.507		CA-95-X071	5,310,705
<u>Total Direct Non-ARRA FTA Program</u>				<u>12,754,259</u>
Total Federal Transit Cluster				<u>17,425,403</u>
				(Continued)

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2010

<u>Federal Grantor/Program and/or Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor</u>	<u>Grant Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Transportation (cont):				
<i>Transit Services Program Cluster</i>				
Federal Transit Administration - Pass-Through Program				
Job Access Reverse Commute (JARC)	20.516	Fresno Council of Governments	CA-37-X102-00	27,946
New Freedom	20.521	Fresno Council of Governments	CA-57-X029-00	1,963
		<u>Total Pass-through FTA Program</u>		<u>29,909</u>
		Total Transit Services Program Cluster		<u>29,909</u>
National Highway Traffic Safety Administration - Pass-through Program				
State and Community Highway Safety - UC Sobriety Checkpoint (FY09)	20.600	CA Office of Traffic Safety	SC09151	191,072
State and Community Highway Safety - UC Sobriety Checkpoint (FY10)	20.600	CA Office of Traffic Safety	SC10151	293,680
State and Community Highway Safety - Click It or Ticket FY09	20.600	CA Office of Traffic Safety	CT09151	47,514
State and Community Highway Safety - Click It or Ticket FY10	20.600	CA Office of Traffic Safety	CT10151	29,658
State and Community Highway Safety - DUI Enforcement and Awareness Program (DEAP) 08/09	20.600	CA Office of Traffic Safety	AL0914	116,991
State and Community Highway Safety - DUI Enforcement and Awareness Program (DEAP) 09/10	20.600	CA Office of Traffic Safety	AL1072	331,023
		<u>Total Pass-through NHTSA Program</u>		<u>1,009,938</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION				46,352,058
U.S. Environmental Protection Agency:				
Surveys, Studies, Demonstration and Special Purpose Grants - Section 1442 of the Safe Drinking Water Act - Direct Program				
Surface Water Treatment Facility Supply Pipeline	66.424		XP-96960901-0	33,434
		<u>Total Direct Safe Drinking Water Program</u>		<u>33,434</u>
Office of Water - Pass-through Program				
ARRA: Capitalization Grants for Clean Water State Revolving Funds: Herndon Town and Cortland/Fountain Way Sewer System (RC94&103)	66.458	California State Water Resources Control Board	C-06-5379-110	673,376
		<u>Total Pass-through ARRA Safe Drinking Water Program</u>		<u>673,376</u>
Office of Water - Pass through Program				
ARRA: Capitalization Grants for Drinking Water State Revolving Funds: Herndon Town Water (WC70)	66.468	State of California Dept of Public Health	1000048-002	440,547
		<u>Total Pass-through ARRA Safe Drinking Water Program</u>		<u>440,547</u>
				(Continued)

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2010

<u>Federal Grantor/Program and/or Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor</u>	<u>Grant Number</u>	<u>Total Federal Expenditures</u>
U.S. Environmental Protection Agency (cont):				
Solid Waste Management Assistance Grants				
EPA Grant-Green Building Demonstration Project 2005	66.808		X1-96953401	15,966
		<u>Total Direct Solid Waste Program</u>		<u>15,966</u>
Brownfields Assessment & Cleanup-Direct Program				
Brownfields Assessment and Cleanup Cooperative Agreements Grant (R9 Tracking No. 08-118)	66.818		BF-96932101-0	9,045
		<u>Total Direct Brownfields</u>		<u>9,045</u>
TOTAL ENVIRONMENTAL PROTECTION AGENCY				1,172,368
U.S. Department of Energy:				
Direct Program				
ARRA: Energy Efficiency and Conservation Block Grant (EECBG)	81.128		DE-EE0000863	1,487,230
		<u>Total Direct ARRA EECBG Program</u>		<u>1,487,230</u>
TOTAL U.S. DEPARTMENT OF ENERGY				1,487,230
U.S. Department of Health and Human Services:				
<i>Aging Cluster</i>				
Office of the Secretary				
Administration on Aging - Pass-through Program				
Senior Hot Meals FY10	93.045	Fresno/Madera Area Agency on Aging	10-0310	75,436
		<u>Total Pass-through non-ARRA HHS Program</u>		<u>75,436</u>
Office of the Secretary				
Administration on Aging - Pass-through Program				
ARRA: Senior Hot Meals	93.045	Fresno/Madera Area Agency on Aging	10-0310NS	35,247
		<u>Total Pass-through ARRA HHS Program</u>		<u>35,247</u>
		Total Aging Cluster		110,683
Administration for Children and Families - Pass-through Program				
Children Exposed to Domestic Violence FY 10/11	93.643	Office of Emergency Services	EV09026675	201,962
Children exposed to Domestic Violence FY 09/10	93.643	Office of Emergency Services	EV08016675	15,409
		<u>Total Pass-through ACF Program</u>		<u>217,371</u>
TOTAL U.S. DEPT OF HEALTH AND HUMAN SERVICES				328,054

(Continued)

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2010

<u>Federal Grantor/Program and/or Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor</u>	<u>Grant Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Homeland Security:				
<i>Homeland Security Cluster</i>				
State Domestic Preparedness Equipment Support Program - Pass-through Program				
FY07 Homeland Security Grant	97.004	CA Office of Emergency Services and Fresno County	2007-0008	21,093
FY08 Homeland Security Grant	97.004	CA Office of Emergency Services and Fresno County	2008-0006	332,585
<u>Total Pass-through SDPES Program</u>				<u>353,678</u>
State Domestic Preparedness Equipment Support Program- Pass-through Program				
FY 09 Homeland Security Grant	97.067	Fresno County/CA HomelandSecurity	HSGP 2009-0019	191,099
<u>Total Pass-through SDPES Program</u>				<u>191,099</u>
Total Homeland Security Cluster				<u>544,777</u>
Assistance to Firefighters Grant - Direct Program				
FY 08 Assistance to Firefighters ("Fire Prevention and Safety"	97.044		EMW-2008-FP-00063	302,200
<u>Total Direct AFG Program</u>				<u>302,200</u>
Citizen Corps Program - Pass-through Program				
Americorp 09-10	97.053	State of CA Governor's Office on Service and Volunteerism	09AC094855	10,000
<u>Total Pass-through CC Program</u>				<u>10,000</u>
Interoperable Emergency Communications - Pass-through Program				
Interoperable Communications Equipment (IECGP)	97.055	CA Emergency Management Agency	2008-IO-T8-0015	355,440
<u>Total Pass-through IECGP Program</u>				<u>355,440</u>

(Continued)

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2010

<u>Federal Grantor/Program and/or Project Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Grantor</u>	<u>Grant Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Homeland Security (cont):				
Metropolitan Medical Response System - Direct Program				
FY08 Metropolitan Medical Response System	97.071		MMRS08	164,727
FY09 Metropolitan Medical Response System	97.071		MMRS09	27,642
		<u>Total Direct MMRS Program</u>		<u>192,369</u>
Assistance to Firefighters Grant Program - Direct Program				
Staffing for Adequate Fire and Emergency Response (SAFER) Grant FY05	97.083		EMW-2005-FF-02473	90,000
Staffing for Adequate Fire and Emergency Response (SAFER) Grant FY06	97.083		EMW-2006-FF-03625	119,115
		<u>Total Direct AFG Program</u>		<u>209,115</u>
Airport Checked Baggage Screening Program - Direct Program				
TSA Airport Checked Baggage Inspection System Program	97.100		HSTS04-09-H-CT1318	108,102
		<u>Total Direct CBIS Program</u>		<u>108,102</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY				1,722,003
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 80,409,444

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2010

State or Local Grantor/Program and/or Project Title	State Agency	Pass-through Grantor	Grant Number	Total State/Local Expenditures
CA Air Resources Board:				
Low Emission Construction Equip	ARB		G06PA14	\$ 48,858
		<u>Total Direct ARB Program</u>		<u>48,858</u>
TOTAL CA AIR RESOURCES BOARD				48,858
CA State Department of Conservation:				
Division of Recycling, Community Outreach Branch - Direct Program				
FY06 Recycling Program	DOC		2006/2007	48,781
FY07 Recycling Program	DOC		2007/2008	1,957
FY08 Recycling Program	DOC		2008/2009	3,713
FY08 Multi-Family Grant	DOC		5007-406	80,742
		<u>Total Direct DOC Program</u>		<u>135,193</u>
TOTAL CA DEPARTMENT OF CONSERVATION				135,193
CA State Environmental Protection Agency:				
CA Integrated Waste Management Board - Direct Program				
2008/2009 Waste Tire Enforcement Program	CIWMB		TEA16-08-14	187,668
2008/2009 Waste Tire Cleanup & Amnesty Event Grant	CIWMB		TCA4-08-31	123,443
2008/2009 Used Motor Oil Block Grant - 13th Cycle	CIWMB		UBG13-07-96	13,283
2009/2010 Used Motor Oil Block Grant - 14th Cycle	CIWMB		UBG14-08-96	58,600
		<u>Total Direct CIWMB Program</u>		<u>382,994</u>
TOTAL CA ENVIRONMENTAL PROTECTION AGENCY				382,994
CA Department of Public Health:				
Childhood Lead Poisoning Prevention Branch				
2009/2011 Childhood Lead Poisoning Prevention	CDPH		08-85053	81,123
		<u>Total Direct CDPH</u>		<u>81,123</u>
TOTAL CA DEPARTMENT OF PUBLIC HEALTH				81,123
National Science Foundation:				
Direct Program				
Granny's Science Center	NSF		400403	8,482
		<u>Total Direct NSF Program</u>		<u>8,482</u>
TOTAL NATIONAL SCIENCE FOUNDATION				8,482

(Continued)

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2010

State or Local Grantor/Program and/or Project Title	State Agency	Pass-through Grantor	Grant Number	Total State/Local Expenditures
CA State Department of Housing and Community Development:				
Direct Program				
Workforce Housing Reward Prog 2005	HCD		05-WFH-108	641,489
Workforce Housing Reward Prog 2006	HCD		07-WFH-192	12,180
CalHome Rehab 2006	HCD		06-CALHOME-185	26,795
			<u>Total Direct HCD Program</u>	680,464
TOTAL CA DEPT OF HOUSING AND COMMUNITY DEVELOPMENT				680,464
CA Department of Health Services :				
Prop 50				
Alternative Groundwater Treatment	CDHS		P50-1010007-051	1,898
			<u>Total Direct Prop 50 Program</u>	1,898
TOTAL CA DEPARTMENT OF HEALTH SERVICES				1,898
CA State Department of Transportation:				
DOT Direct Program				
Litter Inmate Cleanup Program	CA DOT		06a1399	143,999
			<u>Total DOT Program</u>	143,999
Aeronautics Program of the CA Transportation Commission - Direct Program				
AIP - State Match to Fed Proj #3-06-0088-12	CTC		Fre-2-06-2-Mat	517
AIP - State Match to Fed Proj #3-06-0088-13	CTC		Fre-2-07-1-Mat	397
AIP - State Match to Fed Proj #3-06-0088-14	CTC		Fre-2-07-2-Mat	414
AIP - State Match to Fed Proj #3-06-0088-15	CTC		Fre-2-08-1-Mat	844
			<u>Total Direct CTC Program</u>	2,172
Division of Local Transportation Assistance - Direct Program (cont)				
Widen Peach to 4 Lanes w/Landscaped median and 3 Pedestrian Overcrossings	DOT		TCRP01-5060(083)	210,770
Bikeway Planning and Design - Const Bike lanes @ Dakota & Hern	DOT		BTA-07/08-06-FRE-02	92
Bikeway Planning and Design -Willow/Shephard Connect Trail	DOT		BTA-08/09-06-FRE-03	5,594
Cedar Bike Foradora/Los Altos	DOT		BTA-09/10-06-FRE-03	18,137
Safe Routes to Schools @ Hildago ES along Harvy St and 5th	DOT		SR2SL 5060 (141)	5,141
Safe Routes to Schools @ Tehipite Middle	DOT		SR2SFL-5060 (150)	167,700
Safe Routes to Schools @ Olmos ES along Chestnut and Balch	DOT		SR2SL 5060 (155)	209,175
Safe Routes to Schools @ Teague ES on Polk	DOT		SR2SL 5060 (140)	166,072
Safe Routes to Schools @ Williams ES along Fruit and Saginaw	DOT		SR2SL 5060 (187)	7,360
Safe Routes to Schools @ McKinley ES along Blythe and Weldon	DOT		SR2SL 5060 (188)	9,355
			<u>Total Direct DOT Program</u>	799,396
TOTAL CA DEPARTMENT OF TRANSPORTATION				945,567

(Continued)

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2010

State or Local Grantor/Program and/or Project Title	State Agency	Pass-through Grantor	Grant Number	Total State/Local Expenditures
CA State Department of Finance:				
Direct Program				
2007 CA Supplemental Law Enforcement Services Program	DOF		FY07	60,217
2008 CA Supplemental Law Enforcement Services Program	DOF		FY07/08	185,347
2009 CA Supplemental Law Enforcement Services Program	DOF		FY09	32,817
Prop 1B - Public Works	DOF		Prop 1B	2,655,416
Prop 1B - FAX	DOF		Prop 1B	2,681,969
<u>Total Direct DOF Program</u>				<u>5,615,766</u>
TOTAL CA DEPARTMENT OF FINANCE				5,615,766
CA Department of Forestry & Fire Protection				
Urban Forestry Program				
2007 Urban Forestry Innovative Grant Program-Xeriscape			8CA07804	59,242
<u>Total Direct Urban Forestry Program</u>				<u>59,242</u>
TOTAL CA DEPARTMENT OF FORESTRY & FIRE PROTECTION				59,242
Governor's Office of Homeland Security:				
Prop 1B				
Proposition 1B: CTSGP	Governor's Office of Homeland Security		6061-0002	82,679
<u>Total Direct CA OHS</u>				<u>82,679</u>
TOTAL GOVERNOR'S OFFICE OF HOMELAND SECURITY				82,679
CA State Department of Fish and Game:				
Wildlife Conservation Board - Direct Program				
San Joaquin River Parkway Lewis S. Eaton Trail / Riverwest	WCB		CSJR0716	2,284
<u>Total Direct WCB Program</u>				<u>2,284</u>
TOTAL CA DEPARTMENT OF FISH AND GAME				2,284
Kaiser Permanente				
Healthy Lifestyles Fitness Program FY10	KAISER		20608747	25,000
<u>Total Direct Kaiser Permanente Program</u>				<u>25,000</u>
TOTAL KAISER PERMANENTE				25,000
Fresno Metropolitan Flood Control District				
Clean Storm Water Program				
Clean Storm Water Grant - Wet & Wild Summer Camp	FMFCD		FMFCD FY10	1,508
<u>Total Direct Clean Storm Water Program</u>				<u>1,508</u>
TOTAL FRESNO METROPOLITAN FLOOD CONTROL DISTRICT				1,508

(Continued)

CITY OF FRESNO
Schedule of Expenditures of Federal and Nonfederal Awards (Continued)
For the Year Ended June 30, 2010

State or Local Grantor/Program and/or Project Title	State Agency	Pass-through Grantor	Grant Number	Total State/Local Expenditures
First 5 of Fresno County				
Park Improvements	FF5		2008CP6045	500,000
			<u>Total Direct First 5 of Fresno County</u>	<u>500,000</u>
TOTAL FIRST 5 OF FRESNO COUNTY				500,000
CA State Department of Parks and Recreation:				
The Resources Agency - Direct Program				
Roberti-Z'berg-Harris Urban Open Space & Recreation Block Grant 2003	TRA		C0209852	466,266
Habitat Conservation Grant	TRA		C9763009	32,459
			<u>Total Direct Kaiser Permanente Program</u>	<u>498,725</u>
TOTAL CA DEPARTMENT OF PARKS AND RECREATION				498,725
TOTAL EXPENDITURES OF NONFEDERAL AWARDS				\$ 9,069,783

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CITY OF FRESNO
Notes to the Schedule of Expenditures of Federal and Nonfederal Awards
For the Year Ended June 30, 2010

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal and Nonfederal Awards (the Schedule) presents the activity of all federal and nonfederal award programs of the City of Fresno, California (the City). The Schedule includes federal awards received directly from federal agencies, federal awards passed through other agencies, and nonfederal awards. The City's reporting entity is defined in Note 1 to the City's basic financial statements. The basic financial statements of the City include the operations of the City of Fresno Redevelopment Agency, which had no federal award expenditures for the year ended June 30, 2010. The Agency issued a separate audit report on its 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 operations of the City as a whole.

The accompanying Schedule is presented on the cash 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 its subrecipients as follows:

<u>Program Title Provided</u>	<u>Federal CFDA Number</u>	<u>Amount</u>
Community Development Block Grant Entitlement Program	14.218	\$ 3,350,260
Emergency Shelter Grants	14.231	319,429
HOME Investment Partnership Program	14.239	1,023,741

CITY OF FRESNO
Notes to the Schedule of Expenditures of Federal and Nonfederal Awards
For the Year Ended June 30, 2010

Note 3: Section 108 Loans

The City has four (4) Section 108 loans outstanding at June 30, 2010. Semi-annual payments on these Section 108 loans are made from interest earned on the restricted loan investments 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 (4) loans totaled \$551,662 for the year ended June 30, 2010 of which \$551,662 was paid from Community Development Block Grant funds.

As of June 30, 2010, there is \$283 of unspent Section 108 loan proceeds remaining. A summary of Section 108 loans outstanding as of June 30, 2010 is as follows:

<u>Grant Loan Program</u>	<u>Proceed as of June 30, 2010</u>	<u>Loan Balances as of June 30, 2010</u>
Section 108 Note - Fresno Pacific Towers	\$ 283	\$ -
Section 108 Note - Regional Medical Center	-	1,715,000
Section 108 Note - Fresno-Madera Area Agency on Aging	-	970,000
Section 108 Note – Neighborhood Streets/Parks	-	1,177,000
	<u>\$ 283</u>	<u>\$ 3,862,000</u>

CITY OF FRESNO
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section I – Summary of Auditor’s Results

Financial statements:

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified not considered to be material weaknesses?	Yes
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

Identification of major programs:	
CFDA No. 20.106	Airport Improvement Program
CFDA No. 20.205	<i>Highway Planning and Construction Cluster:</i> Highway Planning and Construction
CFDA No. 20.500	<i>Federal Transit Cluster:</i> Federal Transit - Capital Investment Grants
CFDA No. 20.507	Federal Transit - Formula Grants
CFDA No. 14.218	<i>CDBG Entitlement Grants Cluster:</i> Community Development Block Grant/Entitlement Grants
CFDA No. 14.253	Community Development Block Grant ARRA Entitlement Grants

Dollar threshold used to distinguish between Type A and Type B programs:	\$2,412,283
Auditee qualified as a low-risk auditee?	No

CITY OF FRESNO
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Section II – Financial Statement Findings

Finding 10-01 Proper Recognition of Revenue in Proprietary Funds

Criteria

Proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows.

Observation

As disclosed in Note 13.d. of the notes to the basic financial statements for the City of Fresno, there was a widespread occurrence of DBCP, an agricultural pesticide in certain groundwater throughout Fresno. At various City well sites, DBCP exceeds drinking water limits and is removed by Granular Activated Carbon treatment. The City fronted the costs of clean up with respect to the known wells and reimbursed itself from a litigation settlement (with Shell) in an original amount of \$21 million, \$10 million was stipulated to be used toward past costs, and \$11 million was to be applied toward the installation of carbon filtration treatment units and capital costs of the installation of granular activated carbon treatments at wells exceeding maximum contaminant levels. Generally at the end of each fiscal year, the City evaluates the costs incurred in the current fiscal year and records an entry to move the unearned revenue into revenue to match the current year expenses. As of June 30, 2010, the City did not evaluate or review the current year expenses; therefore, revenue was not properly recognized for the year resulting in an overstatement of unearned revenue and an understatement of revenue in the amount of \$1,057,908.

Recommendation

We recommend that the City create or update a year end task list to include evaluation of the DBCP Settlement to ensure the activity is evaluated annually and unearned revenue and revenue are properly reflected each year.

Management Response:

The City agrees with this recommendation.

CAFR staff working on the Water Fund initially ran the expense query early in their work on the fund. Subsequent to the completion of their work there were additional expense adjustments made. In addition, they overlooked transfers as part of their analysis; therefore the figure used to journal unearned revenue to earned revenue was understated.

As a result of budgetary contraction and the loss of staff resulting from retirements and layoffs, several CAFR responsibilities related to the preparation of various fund financial statements have been reallocated to different staff. Naturally a learning curve must take place and staff did not think

CITY OF FRESNO
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

to go back and run another query prior to providing MGO with the trial balance. This process has been added to our "To Do" list.

The understatement of revenue in the Water Fund represents slightly less than 1% of total Operating Revenue. Upon discovery of the understatement by the Auditors, it was determined that the oversight would not have a significant impact on the Water Fund nor would it impact debt service coverage. The correcting entry was therefore passed upon. The CAFR team however has made note of this oversight so as to prevent a reoccurrence in future years.

Finding 10-02 Proper Recognition of Revenue in Governmental Funds

Criteria

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are "susceptible to accrual", that is when they are both measurable and available to finance expenditures of the fiscal period. As disclosed in Note 2 (b) to the City's basic financial statements, it is the City's policy to recognize revenues when available, which is defined as collected within 60 days after year-end. Under generally accepted accounting principles (GAAP), "available" means collectible within the current period or soon enough thereafter to be used to pay the City's liabilities of the current period. Application of "susceptibility to accrual" criterion requires judgment, consideration of the materiality of the item in question, and due regard to practicality of accrual, as well as consistency in application.

Observation

The City processes approximately 26,000 Business License Renewals every quarter. In January 2010 the City installed and implemented new business license software. As part of the implementation of the new software, the invoices developed did not contain the proper bar coding; therefore, payments received by mail from January through June 2010 had to be manually entered into PeopleSoft. In addition, due to current economic conditions, the City reduced the staff size in the Business License Department from 5 employees to 2 employees. During the period January through June 2010, the City kept all payments received by mail locked in the vault until the receipts were processed. Furthermore, checks were not deposited into the bank until the payment was processed, which in some cases occurred 3 months after receipt of payment. As part of the year end process, the City evaluated the collection of business license receipts and accrued \$2,439,066 of payments processed in September 2010, which actually related to activity for the year ended June 30, 2010, to properly capture business license receivables and revenues. The City has made efforts to bring the business license receipts posting up to date by using additional resources within the Finance Department. As of the date of this letter the City is up to date except for those receipts that have unresolved issues.

CITY OF FRESNO
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Recommendation

We recommend the City establish or revise its procedures for depositing checks during times of transition or reduced staffing, to ensure checks are deposited in a timely manner. These procedures could include making copies of all checks received by mail and attaching them to the remittance advices to ensure proper recording in PeopleSoft.

Management Response

The City agrees with the recommendation to revise its procedures and has taken steps to do so.

At June 30, 2010, the Business License Division experienced what could be called the “perfect storm”. As noted above by the Auditors, the Division installed and implemented new Business License Software replacing a system that predated Y2K. The old main frame system left a great deal to be desired and did not provide for automation of many of the business license processes. Conversion to the new system was painful and tedious and required numerous changes in processes and procedures. At the same time the conversion to the new system was taking place, the Business License quarterly reporting statements had to be revised.

For the first two quarters of calendar year 2011, the business license tax returns were sent out late and filing due dates were extended. In addition, initially the returns did not include the proper bar coding needed for automated posting due to some software modifications that were required. As a result, none of the business filings could be read electronically by the “NCR” machine. This required that all 26,000 Business License renewals be keyed in manually for both the March quarter end as well as the June quarter end. To add fuel to the fire, due to budget cuts, the Division lost three Customer Service Clerks at June 30, who otherwise would have been keying in Business License Receipts. The remaining staff, still fairly new to the system, were keying in data at a slower pace than they ultimately will in order to avoid data entry errors as they learned the new system.

Subsequent to June, four additional staff from the Finance Department has been trained to assist with data entry particularly during end of quarter crunch times; the bar code issue has been resolved and so now, the “NCR” system with electronic data entry into the Business License system is fully functional. These two modifications alone have resolved a great deal of the back log issue that was experienced in June. Staff is still experiencing some issues related to the NCR automatic read that results from customers entering the amount being paid incorrectly into the fields used by the NCR machine to read the payment submissions. In these instances, the NCR machine “kicks-out” the payment and the data must be entered manually. These types of read errors are the kind of data entry that are passed on to the “back up” Finance staff for manual data entry. This frees up the experienced Business License staff to focus on delinquent or problem accounts.

Additional process changes which are in the early implementation and investigation stages are the ultimate addition of electronic payment presentment which would allow the business owner to renew and pay online either by using a credit card or creating an electronic draft from the business owner’s checking/bank account. Both of these options however have additional processing costs to the City

CITY OF FRESNO
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

associated with them that the City is investigating as to whether or not they can be passed on to the customer so as to avoid lost revenue to the City.

Even with these enhancements, there will still be those business license returns that will require special attention and hand processing. With the training of the additional staff in Finance, the degree of backlog should no longer be an issue but the situation will be monitored closely.

To ensure that checks are deposited timely, the City intends to create a new clearing account for recording batched business license deposits. Treasury will reconcile bank deposits to the PeopleSoft clearing account and Business License will process the receipts in the Progressive System by batch and clear the clearing account once the batch has been completed.

Section III – Federal Award Findings and Questioned Costs

Finding 10-03 Reporting

Federal Grantor: Department of Housing and Urban Development
Programs: Community Development Block Grant (CDBG) Cluster
Home Investment Partnerships Program (HOME)
CFDA No.: 14.218 and 14.253

Criteria or Specific Requirement

The reporting compliance requirement in accordance with OMB Circular A-133 Compliance Supplement requires that the prime recipient must submit Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low-and Very Low-Income Persons*, for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction. For recipients of HUD Community Planning and Development funding, the Form HUD 60002 is due at the same time as annual performance (e.g., CAPERS) reports, which is within 90 days after the reporting period. For Neighborhood Stabilization Program 1 (NSP1), the Form HUD 60002 is required to be submitted at the same time that the 4th quarter NSP report is submitted, which is within 30 days after the reporting period.

Condition

CDBG Entitlement Grants Cluster: During our audit of the reporting requirements, we noted that the HUD 60002 forms for the NSP1 program was not submitted for the fiscal year ending June 30, 2010. The City department responsible for these reports is the Housing Department.

Cause

The Community Development Agency was focused on completing the Consolidated Annual Performance Evaluation Report, and did not have the resources to complete the HUD 60002 form for the CDBG program. The HUD 60002 form for the NSP1 program was not completed due to a lack of procedure in identifying reporting requirements for new grants.

CITY OF FRESNO
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010

Effect

These programs were not in compliance with the timeliness submission of the HUD 60002 form, thus not providing HUD with necessary information to monitor housing rehabilitation, housing construction, and other public construction activities.

Questioned Costs

Not applicable.

Recommendation

We recommend the City develop procedures to ensure timely submission of required reports and to identify all reporting requirements for new grants received.

Management's Response

Management Agrees.

Section 3 of the Housing and Urban Development Act of 1968, as amended by the Housing and Community Development Act of 1992, requires that recipients of financial assistance provided by the U.S. Department of Housing & Urban Development ("HUD"), to the greatest extent feasible, provide training and employment opportunities for low income area residents and contract opportunities for performance of work by local business owned by and/or employing low income residents.

Under HUD Section 3, recipients are required to collect information on every Sponsor, Contractor, Sub-Contractor, etc. that receives a contract or loan agreement, funded entirely or in part, by federal funds in excess of \$100,000, to ensure compliance with Section 3 regulations. The NSP1 program falls under Section 3 requirements. Recipients are required to submit Summary Report, HUD Form 60002, and annual report showing the recipients' Section 3 effectiveness.

The City of Fresno currently does not have a Section 3 Program in place. This program requires that the recipient comply with the following: 1) Notify Section 3 residents of employment and contracting opportunities, 2) Facilitate employment and training of residents, 3) Incorporate Section 3 clause, 4) Inform contractors of requirements, 5) Assist contractors with compliance, 6) Document compliance actions.

The City is working together with the U.S. Department of Housing and Urban Development to develop a Section 3 Program which subsequently will allow the City to prepare and submit HUD Form 60002 in a timely manner each year.

CITY OF FRESNO
Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended June 30, 2010

Finding 09-01: Fund Financial Statements Revenue Recognition Procedures under Modified Accrual Basis of Accounting

Observation

During our audit, we noted that the City understated deferred revenue and overstated revenue in the fund financial statements at June 30, 2009 related to Grants Fund. This resulted in a material audit adjustment of \$2,333,675. The misstatement was the result of miscommunication or grant revenue activity occurring subsequent to the balance sheet date.

Recommendation

We recommend the City develop a procedure to improve communication between and within departments to ensure all activity which occurs subsequent to the balance sheet date is appropriately reflected in the financial statements.

Status of Corrective Action

This finding was corrected as it relates to grant funds.

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